



## **Property Asset Management Strategy**

**1 November 2024 to 31 March 2029**



# Property Asset Management Strategy

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# Property Asset Management Strategy

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## 1. Introduction:

The Council is facing unprecedented financial pressures and in order to respond, our property portfolio must be utilised in the most efficient and effective way.

The principal objectives of the Council holding property remain the same i.e. to support the vision, priorities and objectives of the Council but the background against which the property portfolio can deliver has been significantly changed, principally due to two factors:

- The Pandemic – it has accelerated the trends in place prior to March 2020 on how the population works and lives, with specific impacts on property usage, values and income profiles.
- The Economy - Medway Council has a firm foundation of good financial management but the economic climate has changed since 2019 including the invasion of Ukraine, with the resultant cost of living crisis considerably increasing the demand to provide temporary accommodation and adult and children's services. These pressures coupled with higher borrowing costs, have all contributed to a shortfall in the Council's balance sheet.

The challenge is to shape the Council's property portfolio to best support its services in this new environment through a radical review of the whole property portfolio to capitalise on the opportunities but still maintain alignment with the Council's priorities and the One Medway Council Plan 2024/28.



## 2. Vision & Objectives:

Medway Council faces significant challenges and opportunities over the next decade associated with developments in the physical infrastructure such as housing, employment, health and transport.

In Medway & Swale, it is estimated that the population will grow by up to 8.8% in the next 15 years and the current forecasts show the biggest increase will be in the 65+ age profile and the 15-24 age category, leading to a changing profile of demand for Council services. The Council must secure sustainable improvements in the quality of life and opportunities for all its residents. It will need to do this with constrained financial resources.

Property has a key part to play in supporting this vision because as a resource it is multi-faceted and multi-purpose. Property helps to support services, regeneration, placemaking and community well-being.

The Council's portfolio has latent value within it and there is a policy choice about the strategic direction in how this value is exploited for the benefit of the community at large. This is a choice between short term efficiencies (releasing capital and lowering operating costs) and long-term opportunities (harnessing value for re-investment), or a balance between these two.

For the immediate future, the Council's financial position will dictate the strategy to comply with the Government's exceptional financial support.

Nevertheless, this Property Asset Management Strategy (PAMS) will continue as a live document, being regularly updated over the next five years with the ongoing review of the Council's property portfolio. The Council will receive annual updates on the progress of the PAMS including any proposals to update it.



## 3. Portfolio:

There are 969 assets including 382 buildings and 464 lettings generating a rental income of £2.75 million p.a. Assets are externally revalued at least once every 5 years on a rolling program to comply with statutory audit requirements.

Since 2018, 47 general fund properties have been disposed of, releasing £12.57million.

The Council holds a significant portfolio of both operational and non-operational property assets: -

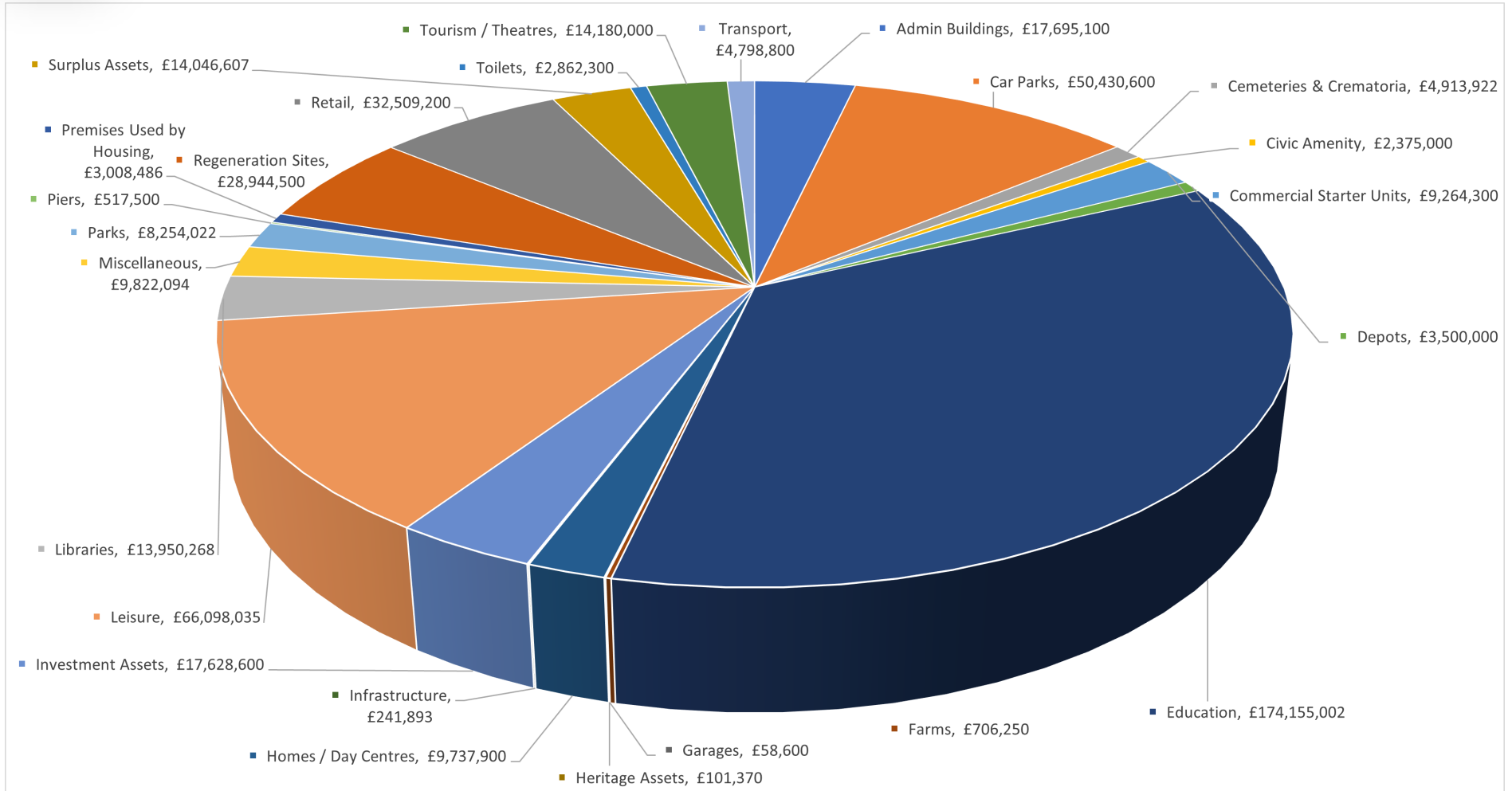
- operational properties serve the statutory and non- statutory service requirements of the Council
- non-operational are held to produce income and for future regeneration opportunities.

The portfolio includes:

- 134 Operational buildings
- 72 Car parks
- Parks, greenspaces and heritage assets.
- Retail property including the Pentagon Shopping Centre.
- The Innovation Centre Medway, the Innovation Studios plus two other business unit estates
- The Investment portfolio
- Regenerations sites, including Chatham Waterfront, Rochester Riverside, Strood Riverside and the former Civic centre site



# Medway Council's large and varied property portfolio with a book value in the region of £490million (2022/23)





# Property Asset Management Strategy

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## 4. Principles:

This strategy is intended to provide an overarching strategy and framework of policy guidelines for the effective management of the Council's property assets initially over the next five years and then beyond. The challenge is to create a corporate property portfolio which :-

- 1. Serves our residents** – by championing the “One Medway Council Plan 2024/28” focusing on what our customers want and need, using better accessible and inclusive facilities to serve them.
- 2. Optimises opportunities & income** – protecting existing income streams from assets which generate returns greater than borrowing costs and investing in buildings & land where additional income and value can be generated (for example the Pentagon Centre) which lead to regeneration including housing.
- 3. Is in repair-** addressing the essential maintenance needs of our remaining buildings, including repairing mechanical and electrical (M&E) systems and prolonging their operational lifespans and addressing critical structural issues.
- 4. Complies with statutory regulations** – taking action to ensure that buildings are compliant with all statutory obligations.
- 5. Tackles climate change and uses less energy** – improving energy efficiency in our estate whether occupied by the Council or by our tenants thus reducing running costs with the aim of the Council reaching Net Zero by 2050.
- 6. Enables efficient team-working** – working more flexibly and collaboratively within our buildings, through promotion of agile working, and providing modern fit-for-purpose workplaces in the right locations.
- 7. Enables efficient cross organisation working including the One Public Estate (OPE) initiative** – collaborating with our public sector colleagues on strategic planning and management of our land and buildings as a collective resource.
- 8. Enables closure of the buildings that we don't need** – operating the Council's estate efficiently for what is needed and disposing of the buildings it doesn't need based on business and service-led strategic changes. To realise capital receipts and reduce revenue demands particularly from leasehold properties.



## **5. Strategy:** To have a property Portfolio that:

### **1. Serves our residents**

Through transactions and providing advice, the Council's Property services follow and supports the 5 priorities of the "One Medway Council Plan 2024/28" these are:

- Delivering quality social care and community services.
- Benefiting from good education, quality jobs and a growing economy.
- Enjoying clean, green, safe and connected communities.
- Improving health and wellbeing for all.
- Living in good quality, affordable homes.

### **2. Optimising opportunities & income**

Everyday property management will continue with the Council's Valuation & Asset Management Team -

- Proactively managing and implementing lease renewals and rent reviews to secure and increase income.
- Securing new lettings to generate income and encouraging new investment in Medway.
- Maintaining the property management database to support proactive property management and to ensure the reliability of data.
- Manage the externally revaluation of the Council's general fund properties to comply with the statutory audit requirements.
- Undertaking monthly budget and debt monitoring and instigating appropriate legal action against defaulting tenants.
- Reducing vacant lettable properties by 15% per annum, increasing rental income by 10% per annum and reducing non recoverable Landlord charges within the Pentagon Centre by 50%, by 31 March 2026.
- If Cabinet approves, implementing the disposals programme, which has been identified in the review of the non-operational property portfolio. See section 6.





## 5. Strategy (continued):

### 3. Is in repair, addressing the essential maintenance needs of our remaining buildings

- The cost of required maintenance for the Council's operational properties within the next 5 years (excluding Gun Wharf) is estimated at £19.8M and this needs to be reduced by disposing of properties which are not suitable and/or are not needed and by investing in the properties, that the Council needs to retain.
- It is vital that standards of compliance are implemented and adhered to by both landlords and tenants.
- This will be achieved by working closely with the Council's Capital Project's Team and Medway Norse to implement repairing obligations and progress planned maintenance schedules for assets within the estate to ensure longevity of asset life cycle and that the Portfolio is safe. All whilst ensuring that we don't over invest in properties that we are going to dispose of.

### 4. Complies with statutory regulations

- This will be achieved by collaborative working with Medway Norse and the Council's facilities management and capital project's team (FMCP) to ensure compliance with statutory legislation for the big 6 – fire, asbestos, legionella, gas, electrical and lifts.

### 5. Tackles climate change and uses less energy

- To improved energy efficiency of assets in line with statute (Minimum Energy Efficiency Standards (MEES)) and available capital funding including national and regional grants and "green" lease drafting for new property transactions leading to reduce energy usage.

### 6. Enables efficient team-working

- Maximising the occupation of Gun Wharf and rationalising other Council operational property through co-location and partnership working.



## 5. Strategy (continued):

### 7. Enables efficient cross Organisation working, including the One Public Estate initiative

- Collaborating with our public sector colleagues on strategic planning and management of our land and buildings as a collective resource.

### 8. Enables closure of the buildings that we don't need

- In consultation with the service departments, a thorough review of the Councils' operational properties is ongoing to review and identify efficiencies, co-usage and disposals. See section 7.



## 6. Non-operational property review

This SMART review = "specific, measurable, achievable, realistic and time-bound" has prioritised the non-operational properties, examples being the Council's tenanted retail & industrial estates, surplus or closed properties, investment properties and surplus land, which have the greatest short-term potential to generate capital receipts. Each asset has been examined in detail and appraised to establish whether its current rental return exceeds the Council's cost of borrowing. If not, and the asset's return can't be improved, then it will be considered for disposal. There will be assets held for regeneration which do not meet the threshold but are considered exceptional long-term assets that should be retained or if sold in their current state, will fundamentally undersell for less than their true value.

To ensure the effective management of non-operational property, it is essential the Council is clear why the asset is being held.

For non-operational assets to be strategically significant they must fall into one of the following three categories – these are explained below. If a property does not fall into one of these categories, then it should be considered for disposal – see reference to surplus property overleaf.

**1. Indirect Service Property** – assets held to fulfil specific service objectives; examples include:

- Assets held in support of residential activities – e.g. shops within the housing revenue account, cafés in parks etc.
- Any assets used by the Council's out-sourced service providers.

**2. Income enhancement** – assets, usually forming part of a larger operational property, that are being utilised to maximise their income generating potential, examples might include:

- Sub-letting temporarily vacant office space
- Granting advertising rights.

**3. Supporting or facilitating a specific policy or plan** – assets being held in the furtherance of a Council objective, examples include:

- Assets held for regeneration proposals.
- Assets where disposal would seriously prejudice the value of a related asset.



## 6. Non-operational property review

All remaining non-operational assets will fall into one of two remaining categories:

1. **Investment property** – property held purely for investment purposes where its current and future financial return objectively exceeds its notional cost of borrowing and minimum revenue provision/repayment of capital. This cost is currently set at 7.9% per annum.

Overleaf is a summary of the potential capital receipts with timescales expected to achieve from the disposal of non-operational properties which do not meet the required return and is being submitted together with this Property Asset Management Strategy (PAMS). If approved, then these properties will be declared surplus and will then transfer into section 2 below.

2. **Surplus property** – property that does not fall into one of the previous categories and has been declared surplus by the Cabinet will be disposed when best consideration reasonably obtainable is available as required by s123 Local Government Act 1972. The governance of which is detailed in section 11.



### **6. Proposed disposal of non-operational properties:**

- 30 properties have been identified as potential disposals with a current asset value of £34,273,483.
- Proposed disposal breakdown: -
- 2025/26 - £31,584,900
- 2026/27 - £ 1,496,083
- 2028/29+ £ 1,192,500
- Nineteen other non- operational properties with a combined value of over £600,000 have also been identified for disposal, but as these are worth under £100,000 per property, then these can be disposed of without the need for a Cabinet approval.



## 7. Operational property review

The operational portfolio of the Council includes 72 car parks and 792 other operational properties.

Reference section 5.8, a review is underway to review the operational properties, and the following factors will be considered:

- The cost of required maintenance
- Whether the function that is run from the property is mandatory or discretionary.
- The running costs and usage of the properties.

An important part of this review is the Integrated Community Hubs project (ICHP) which is considering how the Council's community facilities, including libraries/community hubs, wellbeing & children/family centres, are utilised. There is an increasing demand from external community groups for accommodation without the resource to occupy buildings independently. The outcome of this project and the subsequent report will outline the opportunities available to maximise the property resource where there is greatest demand, dispose of properties which will either remain underutilised, have a substantial maintenance backlog or where disposal is not an option, the use can be transferred to a Council owned property.

It is considered that very little/nothing will be gained from the disposal of schools, open spaces, parks, monuments/heritage assets and allotments, so these assets have not been considered in as much detail as the other assets in this review.

The aim is to generate revenue savings and capital receipts for the Council, whilst avoiding future capital spend on properties, for example on required maintenance. Thereby releasing properties, which can then be disposed, providing opportunities for either the Council, private and public sectors to deliver alternative uses/ development, including much needed housing.



## 7. Operational property review

<b>Mandatory, with limited flexibility</b>	Schools	Not included in this review. (Most schools are either Council owned or are let on 125-year leases to Academy Trusts.)
<b>Mandatory, with flexibility</b>	Libraries	A review of the service to be included in the ICHP.
<b>Discretionary</b>	Museums, Care facilities, Community Hubs, Adult Education, Family Hubs, Business Units which are run by Economic Development, Youth Clubs and Theatres.	Part of the ICHP, reviewing user and running costs information and consider disposal where properties either. <ol style="list-style-type: none"> <li>1. Are not well used.</li> <li>2. Run at a loss. (Allowing for return on capital employed.)</li> <li>3. Do not save the Council from further service pressures in the longer run (e.g. Youth Clubs and Family Hubs do.)</li> </ol>
<b>Discretionary</b>	Off street car- parks.	Car parks will be reviewed and those which do not make a return of over 7.9% per annum will either be recommended for disposal, or it will be suggested that management action is taken to improve the return from them. For example, by charging for car parks that are currently free.



## 8. Gun Wharf:

Since the Council relocated into Gun Wharf, circa 17 years ago, the fabric of the building has remained unaltered, in some part due to its Grade II listing. The building totals 15,793sqm (170,000 sq.ft) with 250 car parking spaces.

The discovery of reinforced autoclaved aerated concrete (RAAC) has focused & reinvigorated the re-evaluation of the building to improve space utilisation coupled with a major refurbishment to effectively utilise the whole space. Previously a substantial letting created the HM County and Family Court on level 2. Coupled with the strategy to divest of leased accommodation, further developments are planned under the co-ordination of the Gun Wharf Improvement Programme including :-

- Relocation of the Council's CCTV control centre at the former Civic Centre site in Strood which is occupied by the provider (Kyndi) into Level 2 at Gun Wharf in Oct 2025.
- Council chamber relocation from St Georges Centre.
- Refurbishment and update to create shared office space for team working plus flexible workstations.
- Hot-desking
- Energy efficiency improvements
- Longer term relocation of Children's Services from Broadside on the lease expiry/break option.

The improved Gun Wharf will result in fewer external buildings, providing a better and more accessible location with centralised facilities management and a long-term maintenance programme. Having fewer buildings and the Council generating electricity at Gun Wharf from solar panels, will also help to reduce energy use.





## 9. Internal Council Partnerships

### 1. Integrated Community Hubs Programme (ICHP)

CMT has established a number of CMT subgroups to take forward certain projects including ICHP, which is a programme to align the most effective use of libraries and community hubs by looking at longer term budget solutions around our property and estate so generating savings in co-located buildings and improving front line resident services. It includes the concept of integrated hubs as well as the fifteen-minute Medway, The idea is that everything a person needs should be within a 15-minute walk or cycle from any point in the city. This includes work, shopping, education, healthcare, leisure and any other amenities a person may need in their regular life. Currently a review is underway, this review will report on the opportunities for co-location within buildings and how many hubs would be needed and where in Medway. The Council's Valuation and Asset Management Team (VAM) will assist with the review and will act on all property related outcomes once these have been endorsed by members.

### 2. Care for Medway

The Council is facing a shortage of new care home placements, which is driving up the average bed cost. The Council's expenditure on older people's care is increasing and the demand for placements is higher than the supply. As part of Care for Medway, the Council wants to consider the feasibility of owning a Care Home which can meet the needs of people with dementia in a residential setting and possibly for people with dementia with nursing needs. The working group which includes VAM and FMCP is considering options to complete a business case to identify a suitable site/building whether it be Council or third party owned.

### 3. Medway Development Company (MDC)

The Council is delivering ambitious plans to regenerate its urban areas and with a substantial land holding, the Council can positively contribute to this objective. A key part of this is delivering new homes which reinforce economic growth and help revitalise areas. Through its wholly owned development company, MDC, high quality residential developments will be delivered as part of the wider regeneration initiatives being implemented by the Council. MDC is currently delivering OPE grant infrastructure improvements for the Council including Mountbatten House Chatham and the former Civic Centre Strood. VAM will continue to support MDC's programme by identifying Council land which is suitable for residential development.



## 10. Public Partners:

Following the recommendations contained in the Chartered Institute of Public Finance's (CIPFA) report January 2024, the priority is to generate revenue savings and capital receipts for the Council by disposing of properties including those that can be used by third parties to deliver development, including much needed housing.

Through the One Public Estate initiative, we engage with our public sector partners locally to generate ideas and strategies including a shared vision to shape public assets to improve public service delivery, reducing running costs for improved public sector efficiency and delivering capital receipts for inwards reinvestment.

We have a strategic partnering with the NHS Kent and Medway, ICB Strategic Estates Steering Group and Medway & Swale Health & Care Partnership Local Estates Forum . This dialogue has resulted in health living centres (HLC's) within Council owned sites, the latest being the James Williams HLC in the Pentagon Centre Chatham, which is under construction and will open in Q4 2025.

We also work and share premises with the MHS Homes Group, Kent Police and South- East Ambulance Service.

Other collaborations include Kent Fire & Rescue Service and higher education organisations– Academies, Universities, Further & Technical Colleges.

Many of our non-operational properties are let to the third sector including charities providing community services.



## 11. Executive leadership & governance

The Council's Cabinet with the Portfolio Holder for Business Support have overall responsibility for all property asset management matters in the Council.

At an officer level, the new Corporate Landlord Board (CLB) has been formed, reflecting best practice. It will consider all matters of property management relating to acquisition, investment, maintenance of and divestment of Council property (see section 12). CLB will ensure that the property portfolio aligns with the Council's One Medway Council Plan 2024/28. Chaired by the Director of Place, initial oversight includes five core place-based projects or programmes that are being implemented for the financial year 2025-2026 being :

- Gun Wharf Improvement Programme
- Integrated Community Hubs Programme
- Property Asset Management Strategy and the resulting disposal programme
- Temporary Accommodation Investment
- Care for Medway.

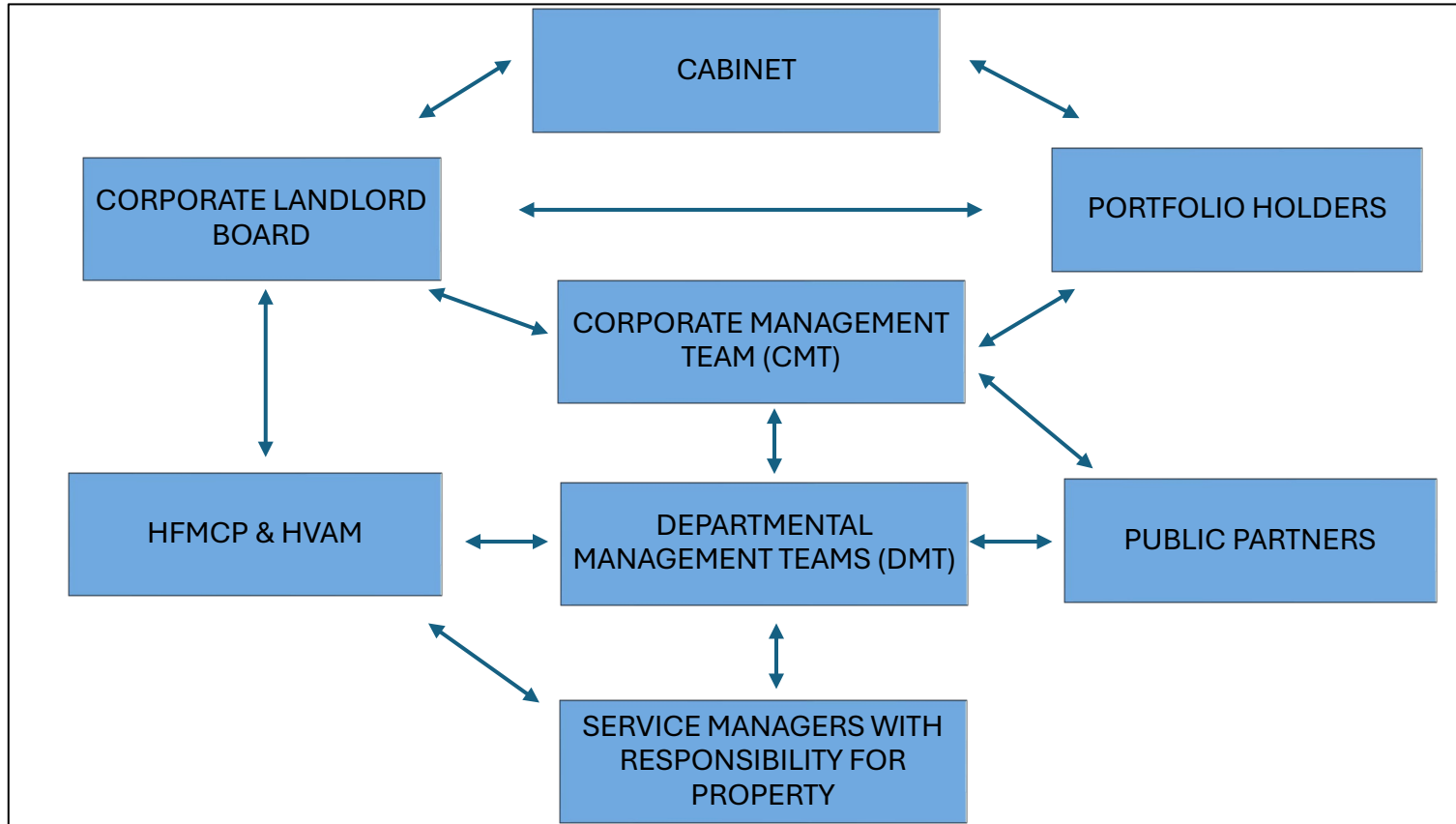
Reporting to the CLB are:

The Head of Facilities Management & Capital Projects (HFMC) - This officer and their team deal with building projects, monitoring of the condition and compliance with legal requirements for the portfolio and property management/improvements and repairs.

The Head of Valuation & Asset Management (HVAM) - This officer and their team deal with valuations of Council property and transactions in relation to the Council general fund property.

The structure of the Council's strategic property function is set out below:

## 11. Executive leadership & Governance





## 12. Key milestones:

- 10 October 2024 - RCE Overview & Scrutiny Committee to consider reports in respect of the Property Asset Management Strategy and the review of the non- operational property portfolio.
- 29 October 2024 - Cabinet to consider reports in respect of the Property Asset Management Strategy and the review of the non- operational property portfolio including disposal recommendations.
- If Cabinet approves the review of the non- operational property portfolio and the recommendations included in it that just over £43M worth of non- operational properties should be disposed of over the next four years, then, additional staff resources (including surveyors and legal support) will be recruited to process the disposals programme.
- 12 December 2024 – Corporate Landlord Board to review the market assessments by external commercial property advisers prior to approving the commencement of the 2025/26 non-operational property disposal programme and will consider the operational property review.
- January 2025 – VAM to commence the disposal programme for non-operational properties.
- VAM to complete the operational property review by formally engaging with those Council services affected by the rationalisation, such as parking, community hubs and libraries and report back to CLB.
- CLB to submit a report on the operational property review to Corporate Management Team in Q1 2025.



# Property Asset Management Strategy

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## Conclusion:

Implementation of this Strategy will lead to a leaner & greener more efficient general fund portfolio, ready to adapt to future pressures but more responsive to the needs of the Council its residents and partners. The overall success will be measured by:

- The capital receipts generated.
- The reduction in leased properties.
- The reduction in required maintenance.
- The reduction in running costs.
- Greater co-operation with our public partners and better integration between the staff in a modern environmentally sustainable head office, fit for purpose portfolio.