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Regeneration, Culture and Environment Overview and Scrutiny Committee

10 October 2024

Property Asset Management Strategy and Property Review

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Summary

This report presents an updated Property Asset Management Strategy (PAMS) which will help the Council to meet the challenges of the CIPFA Resilience Review January 2024 which amongst other things recommended that the Council should carry out a property review to identify surplus property assets.

Alongside this updated Strategy, this report also presents phase 1 of the resulting property review in relation to those non-operational property assets which have been identified as being suitable for being declared surplus, so that they can potentially be disposed of, following appropriate consultation with stakeholders, including the Council's Corporate Landlord Board (CLB).

This report is being presented to this Committee for pre-decision scrutiny prior to consideration by the Cabinet on 29 October 2024.

1. Recommendations

1.1 The Committee is asked to make and submit comments on the proposals set out in the report to the Cabinet and to note that the Cabinet will be asked to approve the following recommendations on 29 October 2024:

1.1.1. To agree the updated Property Asset Management Strategy (PAMS), as set out in Appendix 1 to this report.

1.1.2. To agree to declare the following non-operational properties surplus, and to delegate authority to the Director of Place, in consultation with the Corporate Landlord Board (CLB) to agree the method of disposal for each property and to dispose of the properties in order to obtain the best price reasonably obtainable:

- Land to the South- east of the end of Northdane Way Lordswood.
- Land at 126-150 Chatham Hill.
- Warren Wood Social Club, Rochester.
- Rainham District Shopping Centre.
- Industrial Estate - Railway Street, Gillingham.

- Indoor Bowls Club, Prince Arthur Road, Gillingham.
- Gillingham Business Park.
- Northbank House, Sir Thomas Longley Road, Rochester.
- Ground Floor Shop 23-25 High Street Brompton.
- Britton Farm Shopping Centre, High Street, Gillingham.
- Former Fire Station and Public Toilets Arches, New Cut, Chatham.
- Unit 1 Court Farm Industrial Estate, Cwmbran, Gwent Wales.
- Unit 1 Cherry Trees Court, Hemel Hempstead, Hertfordshire.
- Vantage Point, Holborough Road, Snodland, Kent.
- Eldon Road, Aycliffe Industrial Estate, Newton Aycliffe.
- Saxon Business Park, Bromsgrove, Worcestershire.
- Suffolk Business Park, Bury St Edmunds, Suffolk.
- Unit 5 Deans Industrial Estate, Livingstone, Scotland.
- 19 Lords Fold, Rainford, Merseyside.
- Unit A1 Boothroyds Way, Pontefract, West Yorkshire.
- Viking Park, Whitehill, Bordon, Hampshire.
- Temple Manor, Knight Road, Strood, Rochester.
- Site of 121-129 The Brook, Chatham.
- Capstone Farm, Capstone Road, Farmland adjacent to Capstone Farm Country Park, Chatham.
- Eastcourt & Mariners Fields Farmland adjacent to Riverside Country Park, Gillingham.
- Land and building rear of 70 Maidstone Road, Rochester.
- Stirling Sports Centre, Maidstone Road, Rochester.
- Eastgate Cottage, High Street, Rochester.
- Land at Abbots Court Farm, Bredhurst, Gillingham.
- Gillingham Golf Club, Woodlands Road, Gillingham.

Plans of the above properties which are in Medway are attached to this report in Appendix 3 and further details of all of the properties are set out in Exempt Appendix 1 to this report.

- 1.1.3 To recommend that the Chief Executive, using urgency provisions, approves an addition to the Capital Programme for a budget of up to £400,000pa for up to 3 years to fund the cost of additional staff, which will be required to dispose of the surplus properties, this expenditure is to be funded from the resultant capital receipts, under flexibilities granted by the Government.

2. Budget and policy framework

- 2.1. Approval of the updated Property Asset Management Strategy is a matter for Cabinet.
- 2.2. Acquisitions and disposals of land and property of over £100,000 (per acquisition/disposal) are matters for Cabinet. Any Cabinet land and property transactions over £500,000 are to be reported to the next Council meeting for information, after completion of the transactions.

- 2.3. The budget of £400,000pa to pay for additional staff resources to dispose of the properties, will need to be added to the Capital Programme. Additions to the Capital Programme are matters for Full Council, however, as the next Full Council meeting after Cabinet on 29 October 2024 is not until 23 January 2025, to avoid a 3-month delay in recruiting new staff to deal with the disposals, the Chief Executive will be requested to use his urgency powers to make the addition to the Capital Programme.

3. Background

- 3.1. This Committee received a report on the corporate building survey results in February 2024. In particular, the Committee noted the need for the increased investment to the Building Repairs and Maintenance Fund to ensure that the corporate estate portfolio remains safe, warm and dry and a valuable set of assets. The Committee also recommended to Cabinet that it asks officers to review the Council's asset management strategy and to provide an update and action plan at a future Committee. Therefore, inclusion of this report complies with the Committee's request to provide an update and action plan.
- 3.2. The current Property Asset Management Strategy (PAMS), was agreed by Cabinet in August 2017 and covered the period from April 2017 to March 2022. The attached updated strategy states that the proactive management of the Council's General Fund property portfolio should continue by ensuring that the Council's property portfolio:
- Serves our residents.
 - Optimises opportunities & income.
 - Is in repair.
 - Complies with legislation.
 - Uses less energy and has less impact on the climate.
 - Enables efficient team working.
 - Enables efficient cross organisation working.
 - Enables closure of the buildings that we don't need.
- 3.3. It is good practice to have an up-to-date Property Asset Management Strategy (PAMS) and the CIPFA Resilience Review Report recommended an urgent strategic property review of the Council's property portfolio, and that the Council should implement radical action across the whole portfolio to capitalise on it, whilst ensuring that the portfolio is aligned with the Council's needs and priorities. It also said that the Council should identify other property assets, including operational properties, whose disposal can contribute to Medway's longer-term financial sustainability. The aim of this review is to generate at least £20M from capital receipts over the next 5 years. Therefore, the Property Asset Management Strategy has been updated to take these issues into account and is set out at Appendix 1 to the report. In addition to this, phase 1 of the property review has identified just under £34.873M worth of non-operational property for potential disposal.
- 3.4. The Council's property portfolio has a book value of over £521M and includes in excess of 1000 property assets, not including the Housing Revenue

Account (HRA) properties, which are mainly occupied by secure residential tenants and lessees. The HRA is “ringfenced” and sits outside of the general fund property portfolio and does not form part of this review.

- 3.5. The general fund portfolio can be broken down into the following categories and sub-categories:

Category	Sub- category	Example
Non- operational property (Phase 1 of the review)	Let property which is held to generate income.	Shops, and business parks.
	Property that is surplus and can be/is being sold.	A closed car park.
	Property that is not used by the Council but is held for/in the process of being developed.	Regeneration sites.
	Property, which is let, but is used for the provision of indirect services. (i.e. not commissioned by the Council.)	Supported workspace and Let Scout Huts, nurseries/playgroups and let community centres.
Operational Property (Phase 2 of the review.)	Occupied by the Council for running services.	A Community School. Business units, which are run by Economic Development. Integrated Hubs/ libraries. Car parks.
	Not occupied by the Council, but used by or leased to a service provider who provides services for the Council or its area.	An Academy School. A let care facility, where the tenant provides services to the Council. Recycling Centres.

- 3.6. Phase 1 of the resulting property review has identified 49 non-operational property assets, with a value of £34.873M which can be disposed of to reduce debt and to make revenue savings.
- 3.7. The methodology of the review is as follows.
 - 3.7.1. Due to time and budget constraints this is a “desk-top” exercise which is based on the Council’s existing information including using existing asset valuations.
 - 3.7.2. The first phase of the review has focussed on the non-operational and let properties, there are about 180 of these. The financial return which these properties generate has been calculated as a percentage of their value and if this does not meet or exceed the Council’s cost of debt, which is currently calculated at 7.9% per annum (this includes interest and minimum revenue provision (MRP)) then unless the return from such properties can be improved to above 7.9% pa, or these properties are held for other purposes, then it is recommended that they are disposed of. If interest rates change significantly during this programme, the suitability of properties for disposal which are near to the amended rate of return will be reappraised.
- 3.8. It should be noted that:
 - 3.8.1. The Council will need an additional resource to deal with the disposal of the properties that are identified for disposal in this report and to deal with the disposal of the non-operational properties, which can be disposed of using the Head of Valuation and Asset Management’s existing delegated powers and also those properties which will be identified in the forthcoming review of the operational portfolio. This will cost up to £400,000 per annum for up to 3 years. This cost can be recovered from revenue savings from the sale of the properties. (This cost will fund 1 x Disposals’ Programme Manager, 2 x disposal surveyors and 1 x Conveyancing solicitor).
 - 3.8.2. The valuations for the properties, do not include disposal costs, which will be around 2.5% of the proceeds of sale. (This will include agents and auction fees etc).
 - 3.8.3. Disposal of these properties/using the proceeds of sale to repay debt, will reduce the volatility of the Council’s budgets, as the Council will not be exposed to void property costs such as empty rates, management, repairs and reletting costs and will not be exposed to bad debt from tenant default/ failure.
- 3.9. Exempt Appendix 1 sets out details of the 30 non-operational properties, which it is recommended are disposed of. This Exempt Appendix includes properties with an asset value of £34.273M, which can be disposed of over the next 5 years. The sale of some of these properties will result in a loss of net rental income of £1.582M pa, however this will be more than

compensated for by the saving in debt interest, of £2.707MM pa once the capital receipts from the sales are used to repay debt. (Net gain of £1.118M pa.) Details of these losses of rent, savings in servicing debt and the net position are set out in Exempt Appendix 1.

3.10. The second phase of the review which is well under way is focusing on operational properties, this will result in lower levels of capital receipts and revenue savings than the first phase of the review but will result in higher cost avoidance savings, for example, in the need to spend money tackling the required maintenance at these properties. It is anticipated that a report concerning phase 2 of the review will be able to go to Cabinet and if required Overview and Scrutiny Committee in early 2025.

3.11. However, as services are run from these properties, this part of the review will take longer, as it will involve consultation with and input from service users, the public, staff, other stakeholders, service departments and the Council's finance and legal teams.

3.12. The second phase of the review will consider operational properties as follows:

Service Provision	Example	Action
Mandatory, with limited flexibility	Schools	Nothing major proposed as part of this review. (Most schools are either not Council owned or are let on 125-year leases to Academy Trusts).
Mandatory, with flexibility	/Integrated hubs/Libraries.	A review of the service.
Discretionary	Museums, Care facilities, Community Hubs, Adult Education, Family Hubs, Youth Clubs, Business Units which are run by Economic Development and Theatres.	Obtain user and running costs information and consider disposal only where properties either. <ol style="list-style-type: none"> 1. Are not well used. 2. Run at a loss. (Allowing for return on capital employed). 3. Do not save the Council from further service pressures in the longer run (Youth Clubs and Family Hubs do save the Council from service pressures in the longer run).
Discretionary	Off street car-parks.	Car parks will be reviewed and those which do not make a return of over 7.9% will either be considered 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.

- 3.13. Officers are already working on the review of car parks and integrated hubs and other reviews are to follow. It is considered that very little/nothing will be gained from the disposal of open spaces, parks and allotments, so these assets will not be considered as part of this review.
- 3.14. Any proposals in respect of the review of operational properties will be presented to a future Cabinet meeting and to Overview and Scrutiny if required. We are aiming to get a report to Cabinet and if required Overview and Scrutiny in respect of the operational properties early next year.

4. Options

- 4.1. Option 1- the Council could decide to take no action in respect of the Property Asset Management Strategy. However, this would not be good practice, would be contrary to CIPFA's recommendations and would not deliver capital receipts and revenue savings, which will help to put the Council in a more sustainable financial position and avoid direct Government intervention.
- 4.2. Option 2- The Council could approve the updated Asset Management Strategy including phase 1 of the review. This is the recommended option.

5. Advice and analysis

- 5.1. Managing its general fund property portfolio in parallel with the challenges which are identified in the CIPFA report, will help the Council to set sustainable budgets.
- 5.2. The Council needs to be able to set a sustainable budget and the capital receipts, and revenue savings that could be delivered from this property review will help the Council to do this.
- 5.3. The Council has the power to dispose of property under s123 of the Local Government Act 1972. However, the Council has a duty to obtain best consideration, which the proposed transactions will deliver.
- 5.4. The Implementation of the Strategy and the property review will be overseen by the new Corporate Landlord Board, which is chaired by the Director of Place and includes representatives from all directorates. The Board's roles will include assessing the most suitable properties for disposal and the method of disposal in order to obtain the best consideration reasonably obtainable.
- 5.5. Plans of the properties which are in Medway and which are recommended for disposal are attached to this report in appendix 3 and further details of all of the properties are set out in Exempt Appendix 1 to this report.
- 5.6. Phase 1 of the property review has identified £34.273M worth of non-operational properties for possible disposal where Cabinet authority will be needed to dispose of them.

- 5.7 Following consideration at the Corporate Landlord Board, the Director of Place will decide whether to use his delegated authority to dispose of the non-operational properties, and these decisions will be published as officer executive decisions.
- 5.8 Phase 1 of the review has also identified £600,000 worth of non-operational properties, with a value of under £100,000 each for disposal. This includes 19 assets where the net rental income is £17,500 pa, but the saving in borrowing costs will be around £48,700, so an annual saving of around £31,200pa. These can be disposed of using the Head of Valuation and Asset Management's existing delegated powers, so are not included in this report.
- 5.9 A Diversity Impact Assessment has been undertaken on the Strategy, which is set out at Appendix 2 to the report.

6. Risk management

Risk	Description	Action to avoid or mitigate risk	Risk rating
Outdated Property Asset Management Strategy.	Relying on the 2017 strategy is not best practice and ignores the current financial challenges.	Implementing the CIPFA report recommendations and accepting the new strategy.	CII
DLUHC intervention after the Council has had to issue a s114 notice.	Failing to enact a robust credible strategy by not disposing of a sufficient quantity and value of properties.	£34.873M has already been identified from the disposal of non-operational properties. Ensure that properties are declared surplus. Ensure that the property function is resourced to deal with the disposals. Ensure that a robust review of the operational portfolio is completed.	CII
The £20M target is not achieved.	An inadequate supply of properties is made available for sale, or the properties do not achieve as	£34.873M has already been identified from the disposal of non-operational properties.	CII

Risk	Description	Action to avoid or mitigate risk	Risk rating
	much as they are currently valued at.	<p>Ensure that properties are declared surplus and sold.</p> <p>Ensure that the property function is resourced to deal with the disposals.</p> <p>Ensure that a robust review of the operational portfolio is carried out.</p>	
There is a net loss in revenue after the disposals.	The loss of revenue income resulting from the sales exceeds the saving in servicing debt.	<p>Where appropriate, negotiate directly with tenants to secure the best price for assets.</p> <p>Include suitable “reserve” prices in any sale, to ensure that the saving in debt from selling the properties exceeds the rental income.</p> <p>Ensure that a robust review of the operational portfolio is carried out.</p>	CII

Likelihood	Impact:
<p>A Very likely</p> <p>B Likely</p> <p>C Unlikely</p> <p>D Rare</p>	<p>I Catastrophic</p> <p>II Major</p> <p>III Moderate</p> <p>IV Minor</p>

7. Consultation

- 7.1 Corporate Management Team, the Council’s finance and legal teams, and the relevant service departments have all been consulted and there have been no objections to the proposals in respect of phase 1 of the property review. The implementation of the Property Asset Management Strategy and the property review will be overseen by the new Corporate Landlord Board, which is to be chaired by the Director of Place and has representatives of all directorates.

The Board's roles will include assessing the most suitable properties for disposal and the method of disposal to obtain the best price reasonably obtainable.

8. Climate change implications

- 8.1. There are no direct climate change implications, from phase 1 of the property review as any properties will either remain in use after disposal or will enable sustainable development of other land.
- 8.2. The implementation of the Property Asset Management Strategy should help to reduce the Council's impact on climate change as the Council will have a smaller and more efficient portfolio, once the Strategy has been implemented.

9. Financial implications

- 9.1 These are set out in this report and in the Exempt Appendix 1 to this report.

10 Legal implications

- 10.1 The Council has a duty under Section 123 of the Local Government Act 1972, to obtain best consideration when it disposes of or grants leases for over seven years or more of land and property.

Lead officer contact

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Appendices:

Appendix 1 - Property Asset Management Strategy

Appendix 2 - Diversity Impact Assessment

Appendix 3 - Plans of the properties in Medway which are recommended for disposal

Exempt Appendix 1 - Details of the properties which are recommended for disposal

Background papers

CIPFA report dated January 2024.

https://www.medway.gov.uk/downloads/download/772/financial_reviews_2023_to_2024