

Cabinet

29 October 2024

Property Asset Management Strategy & Property Review

Portfolio Holder: Councillor Zoë Van Dyke Portfolio Holder for Business Management

Report from: Sunny Ee, Assistant Director, Regeneration

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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 the 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 was considered by the Regeneration, Culture and Environment Overview and Scrutiny on 10 October 2024, the minutes of this meeting are set out at section 9 of this report below.

1. Recommendations

1.1 The Cabinet is asked to note the comments of the Regeneration, Culture and Environment Overview and Scrutiny Committee, as set out in section 9 of the report.

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

1.1.2. The Cabinet is requested 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 Abbotts Court Farm, Bredhurst, Gillingham.
- Gillingham Golf Club, Woodlands Road, Gillingham.

(Plans of the above properties which are located 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 The Cabinet is requested 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. Suggested reasons for decisions

- 2.1. The updated Property Asset Management Strategy (PAMS) will help the Council to meet the challenges of the CIPFA Resilience Review January 2024. The Review also recommended that the Council should carry out a property review to identify surplus property assets.

- 2.2 To generate revenue savings and capital receipts for the council.
- 2.3 To free up properties, which can be disposed of and can then be used by the private and third sectors to deliver development, including much needed housing.

3. Budget and policy framework

- 3.1. Approval of the updated Property Asset Management Strategy is a matter for Cabinet.
- 3.2. At the time of the report to Regeneration, Culture and Environment Overview and Scrutiny on 10 October 2024, acquisitions and disposals of land and property of over £100,000 (per acquisition/disposal) were matters for Cabinet and any Cabinet land and property transactions over £500,000 were to be reported to the next Council meeting for information, after completion of the transactions. Since then, Full Council on 17 October 2024, agreed that these limits would be changed as set out below:
 - Land acquisition – The limit of authority for the Chief Executive and Directors to act has now been removed, so long as there is provision within the capital or revenue budget approved by Full Council, and these acquisitions are not contrary to the policy framework.
 - Disposals of land and property - The limit of authority for the Chief Executive and Directors to act was increased from £100,000 to £500,000 with disposals above this value to be agreed by Cabinet.
 - The minimum value of property transactions which are to be reported to Full Council after completion for information has increased from £500,000 to £1,000,000.
- 3.3. 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.

4. Background

- 4.1. The Regeneration, Culture and Environment Overview and Scrutiny Committee (O&S) 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.

4.2. 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.

4.3. 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 £34.873M worth of non-operational property for potential disposal.

4.4. 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.

4.5. 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.

Category	Sub- category	Example
	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.)	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. Integrated Hubs/ libraries. Car parks. Business Units which are run by Economic Development.
	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.

- 4.6. 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.
- 4.7. The methodology of the review is as follows.
- 4.7.1. 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.
- 4.7.2. 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.

4.8. It should be noted that:

- 4.8.1. 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).
- 4.8.2. 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).
- 4.8.3. 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.
- 4.9. 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 £34.273 M, 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 £1.589M pa, however this will be more than compensated for by the saving in debt interest, of £2.707M 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.
- 4.10. 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.
- 4.11. 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.

4.12. 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, Business Units which are run by Economic Development, Family Hubs, Youth Clubs 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.

4.13. 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.

4.14. 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.

5. Options

- 5.1. 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.
- 5.2. Option 2- The Council could approve the updated Asset Management Strategy including phase 1 of the review. This is the recommended option.

6. Advice and analysis

- 6.1. 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.
- 6.2. 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.
- 6.3. 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.
- 6.4. 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.
- 6.5. Plans of the properties in Medway 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.
- 6.6. Phase 1 of the property review has identified £34.273M worth of non-operational properties for possible disposal were based on the previous financial limit of £100,000 per property, Cabinet authority is needed to dispose of them.
- 6.7. 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.
- 6.8. 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.

6.9. A Diversity Impact Assessment has been undertaken on the Strategy, which is set out at Appendix 2 to the report.

7. 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.	<p>£34.873M has already been identified from the disposal of non-operational properties.</p> <p>Ensure that properties are declared surplus.</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 completed.</p>	CII
The £20M target is not achieved.	An inadequate supply of properties is made available for sale, or the properties do not achieve as much as they are currently valued at.	<p>£34.873M has already been identified from the disposal of non-operational properties.</p> <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>	CII

Risk	Description	Action to avoid or mitigate risk	Risk rating
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.	Where appropriate, negotiate directly with tenants to secure the best price for assets. Include suitable “reserve” prices in any sale, to ensure that the saving in debt from selling the properties exceeds the rental income. Ensure that a robust review of the operational portfolio is carried out.	CII

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

8. Consultation

8.1. 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.

9. Regeneration, Culture and Environment Overview and Scrutiny Committee

9.1. The Regeneration, Culture and Environment Overview and Scrutiny Committee considered the report on 10 October and the minutes of the discussion are set out below.

- 9.2. Officers summarised the background and rationale for the Asset Management Strategy and Property Review for the Committee and explained the methodology for selection of the properties that should be recommended for disposal.
- 9.3. The Committee was informed that this was an early stage of the process and that all properties would be considered on a case-by-case basis by the Director of Place, in consultation with the Council's Corporate Landlord Board (CLB) before being disposed of.
- 9.4. Members raised the following comments and queries:
- 9.5. The principle of disposing of properties that yield low income, were derelict, of no economic value or require expensive maintenance makes sense.
- 9.6. Members queried whether the methodology took into account fluctuating interest rates. Officers advised that going forward any decision to dispose of the properties would be made in liaison with the Council's CLB and fluctuating interest rates would be taken into consideration. Members suggested providing Cabinet with different scenarios based on different interest rates and officers responded that these would only be "snapshots" and that it would be preferable for CLB to consider, the current values of properties, current income and interest rates prior to the disposals.
- 9.7. Officers were asked if there was any way to restrict the future use of properties that were disposed of. Officers responded to explain that there were various ways to address this, but this would be a matter for the CLB when looking at disposal as this could impact on values.
- 9.8. Members asked whether any property disposal should await until the outcome of the Local Plan as some sites could be needed for infrastructure. Officers confirmed that where appropriate the disposal process would be informed by the Local Plan Process and would involve promoting sites for development where it was beneficial to do so.
- 9.9. In response to a question about maintenance costs and potential savings, officers confirmed that properties in the non-operational property review were mostly unused or let so there were no large maintenance costs for Medway Council. The savings in future maintenance costs would be identified in the forthcoming review of the Council's operational properties.
- 9.10. Members questioned why properties had been purchased outside of Medway and were informed that the 10 properties recommended for disposal were the only properties out of areas and that it was unlikely any other properties would be purchased out of area.
- 9.11. Assets of Community Value were discussed and how Members could support this. The Committee was informed that some of the sites were already leased to community groups, and they would be given the opportunity to purchase the sites which they occupy. Officers clarified that in the operational property review

that would follow there could be properties that groups want to list as assets of community value and there would be a process to follow for this.

- 9.12. Confidence levels of officers for raising approximately £20m from the disposal programme were queried and officers confirmed that they were confident that this could be achieved.
- 9.13. Officers were asked why a heritage asset, Temple Manor, was included in the list and how its future could be protected. Officers explained that Temple Manor was in the guardianship of central government through English Heritage, was rarely open and no Council services were run directly from it. Officers confirmed that whilst English Heritage had no objection to the sale of the property they would like the public to be able to visit the property still and would work with any new owners to achieve this.
- 9.14. Members questioned whether planning applications should be made prior to disposal to increase the value of some sites. The Committee were informed that CLB would consider whether applying for a change of use or planning permission for some sites would be beneficial in terms of value and each site would be looked at on a case-by-case basis as part of the disposal process. Officers also stated that some sites had limited scope for this.
- 9.15. Members questioned whether additional staff to deliver the programme would be required for longer than 3 years and whether they would be specialists. In response officers explained that staffing was currently being progressed with the Head of Property and opportunities for secondment or interim staff were being explored.
- 9.16. With regards to the Capstone Farm site, Members queried whether any of the let site was being retained. Officers confirmed the site which is recommended for disposal was the full extent of the let site and the tenancy length would be provided outside of the meeting. (The lease of this site expires on 17 September 2030.)
- 9.17. Members queried how many other properties the Council owned, and how many were not recommended for disposal as part of this review and officers confirmed that they were happy to provide information outside of the meeting.
- 9.18. Officers confirmed that tenants in let properties had been contacted and that they would have the opportunity to purchase the properties which they occupy and that any existing leases would have to be honoured by new owners.
- 9.19. **Decision:**

The Committee made comments on the proposals set out in the report to the Cabinet and noted that the Cabinet will be asked to approve the following recommendations on 29 October 2024:

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

- ii) 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.
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 - Gillingham Business Park.
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 - 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.
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 - 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.
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 - 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.
- iii) 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.
- iv) 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.

10. Climate change implications

- 10.1. 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.
- 10.2. 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.

11. Financial implications

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

12. Legal implications

- 12.1. 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](#)