



## **Chief Executive Using Urgency Powers**

**14 November 2024**

### **Property Asset Management Strategy & Property Review**

Report from: Sunny Ee, Assistant Director, Regeneration

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#### **Summary**

This report seeks the Chief Executive's approval for an addition to the Revenue Budget for a budget of £400,000 per annum for up to 3 years to fund the cost of additional staff, required to dispose of surplus properties. This will be funded from total capital receipts under flexibilities granted by the Government.

The direct costs of disposal (agents fees and auction fees etc.) will continue to be netted off against the individual capital receipts at the point of disposal, in accordance with current accounting practice.

#### **1. Recommendation**

- 1.1. The Chief Executive, in consultation with the Leader of the Council and the Leader of the Conservative Group, is recommended to approve an addition to the revenue budget for a budget of £400,000 pa for up to 3 years to fund the cost of additional staff, 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. Addition of funding to the Council's Revenue Budget is a non-executive function. The budget of £400,000pa to pay for additional staff resources to dispose of the properties, will need to be added to the Revenue Budget. Additions to the Revenue Budget 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 is requested to use his urgency powers to make the addition to the Revenue Budget.
- 2.2. Where a proposed decision is a non-executive function, the Chief Executive and Directors shall have the power to act on behalf of the Council in cases of urgency, only where the urgent matter is of such a nature that it may be against the Council's interest to delay and where it is not practicable to obtain

the approval of the Council, in accordance with paragraph 4.1 of chapter 3, part 4 of the Constitution (employee delegation scheme). This is subject to consultation with the Leaders of all the groups which comprise at least 1/10th of the membership of the Council (or their nominees) and the provisions for urgent decisions which are contrary to any plan or strategy which has been approved or adopted by the Council or which are contrary to or not wholly in accordance with the budget approved by the Council (set out in Chapter 4, Part 3 of the Constitution).

- 2.3. The Chief Executive consulted with the Leader of the Council, Councillor Maple, and the Leader of the Conservative Group, Councillor Perfect on 12 November 2024.
- 2.4. Following the decision, the decision taker will provide a full report to the next available Council meeting (23 January 2025) explaining the decision, the reasons for it and why the decision was treated as a matter of urgency.
- 2.5. Approval of the updated Property Asset Management Strategy is a matter for Cabinet. This was approved by the Cabinet on 29 October 2024.

### 3. Background

- 3.1. On 29 October 2024, the Cabinet considered a report in relation to the Property Asset Management Strategy and a property review to identify surplus property assets. The Cabinet made the following decisions:
- 3.2. The Cabinet noted the comments of the Regeneration, Culture and Environment Overview and Scrutiny Committee, as set out in section 9 of the report.
- 3.3. 128/2024 – The Cabinet agreed the updated Property Asset Management Strategy (PAMS), as set out in Appendix 1 to the report.
- 3.4. 129/2024 – The Cabinet declared the following non-operational properties surplus [as set out in decision Nos 129a/2024 to 129ac/2024] and agreed 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.
- 3.5. 129a/2024 – Land to the South- east of the end of Northdane Way, Lordswood
  - 3.5.1. 129b/2024 – Land at 126-150 Chatham Hill
  - 3.5.2. 129c/2024 – Warren Wood Social Club, Rochester
  - 3.5.3. 129d/2024 – Rainham District Shopping Centre
  - 3.5.4. 129e/2024 – Industrial Estate - Railway Street, Gillingham
  - 3.5.5. 129f/2024 – Indoor Bowls Club, Prince Arthur Road, Gillingham

- 3.5.6. 129g/2024 – Gillingham Business Park
- 3.5.7. 129h/2024 – Northbank House, Sir Thomas Longley Road, Rochester
- 3.5.8. 129i/2024 – Ground Floor Shop 23-25 High Street, Brompton
- 3.5.9. 129j/2024 – Britton Farm Shopping Centre, High Street, Gillingham
- 3.5.10. 129k/2024 – Former Fire Station and Public Toilets Arches, New Cut, Chatham
- 3.5.11. 129l/2024 – Unit 1 Court Farm Industrial Estate, Cwmbran, Gwent Wales
- 3.5.12. 129m/2024 – Unit 1 Cherry Trees Court, Hemel Hempstead, Hertfordshire
- 3.5.13. 129n/2024 – Vantage Point, Holborough Road, Snodland, Kent
- 3.5.14. 129o/2024 – Eldon Road, Aycliffe Industrial Estate, Newton Aycliffe
- 3.5.15. 129p/2024 – Saxon Business Park, Bromsgrove, Worcestershire
- 3.5.16. 129q/2024 – Suffolk Business Park, Bury St Edmunds, Suffolk
- 3.5.17. 129r/2024 – Unit 5 Deans Industrial Estate, Livingstone, Scotland
- 3.5.18. 129s/2024 – 19 Lords Fold, Rainford, Merseyside
- 3.5.19. 129t/2024 – Unit A1 Boothroyds Way, Pontefract, West Yorkshire
- 3.5.20. 129u/2024 – Viking Park, Whitehill, Bordon, Hampshire
- 3.5.21. 129v/2024 – Temple Manor, Knight Road, Strood, Rochester
- 3.5.22. 129w/2024 – Site of 121-129 The Brook, Chatham
- 3.5.23. 129x/2024 – Eastcourt & Mariners Fields Farmland adjacent to Riverside Country Park, Gillingham
- 3.5.24. 129y/2024 – Land and building rear of 70 Maidstone Road, Rochester
- 3.5.25. 129z/2024 – Stirling Sports Centre, Maidstone Road, Rochester
- 3.5.26. 129aa/2024 – Eastgate Cottage, High Street, Rochester
- 3.5.27. 129ab/2024 – Land at Abbots Court Farm, Bredhurst, Gillingham
- 3.5.28. 129ac/2024 – Gillingham Golf Club, Woodlands Road, Gillingham
- 3.6. 130/2024 – The Cabinet recommended the Chief Executive use urgency provisions to approve an addition to the Capital Programme for a budget of up to £400,000 p.a. for up to 3 years, to fund the cost of additional staff required to dispose of the surplus properties. This expenditure was to be funded from the resultant capital receipts, under flexibilities granted by the Government.

- 3.7. The recommendation to Cabinet was for an addition to the Capital Programme. This was incorrect and the Chief Executive is accordingly now being asked to make an addition to the Council's revenue budget.
- 3.8. 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.
- 3.9. The previous Property Asset Management Strategy (PAMS) was agreed by Cabinet in August 2017 and covered the period from April 2017 to March 2022. The updated strategy, as agreed by the Cabinet on 29 October 2024, 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.
- 3.10. 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 was updated to take these issues into account. In addition to this, phase 1 of the property review has identified £34.873M worth of non-operational property for potential disposal.
- 3.11. 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.

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

<b>Category</b>	<b>Sub- category</b>	<b>Example</b>
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.)	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.

3.13. 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.

3.14. The methodology of the review has been as follows.

- 3.14.1. Due to time and budget constraints this has been a “desk-top” exercise which is based on the Council’s existing information including using existing asset valuations.
- 3.14.2. The first phase of the review 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.
- 3.15. It should be noted that:
  - 3.15.1. The Council will need an additional resource to deal with the disposal of the properties that were identified for disposal in the Cabinet 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 will fund 1 x Disposals’ Programme Manager, 2 x disposal surveyors and 1 x Conveyancing solicitor).
  - 3.15.2. 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).
  - 3.15.3. 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.
- 3.16. Exempt Appendix 1 of the Cabinet report set out details of the 30 non-operational properties, which were recommended for disposal. This Exempt Appendix also included 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 were set out in Exempt Appendix 1 to the Cabinet report.

3.17. 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.

3.18. 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.

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

<b>Service Provision</b>	<b>Example</b>	<b>Action</b>
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"> <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 (Youth Clubs and Family Hubs do save the Council from service pressures in the longer run).</li> </ol>
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.

3.20. 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.

- 3.21. 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 - Do nothing, disposals would not be possible due to lack of capacity.
- 4.2. Option 2 – Partial approval, this would result in limited capacity to proceed with disposals.
- 4.3. Option 3 – Approve as requested, this will result in capacity to progress with disposals with due diligence.

#### 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 in Medway which were recommended for disposal were attached to the Cabinet report in appendix 3 and further details of all of the properties were set out in Exempt Appendix 1.
- 5.6. 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 was 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 was set out at Appendix 2 to the Cabinet report.

## 6. Risk management

<b>Risk</b>	<b>Description</b>	<b>Action to avoid or mitigate risk</b>	<b>Risk rating</b>
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 much as they are currently valued at.	£34.873M has already been identified from the disposal of non-operational properties.  Ensure that properties are declared surplus and sold.  Ensure that the property function is resourced to deal with the disposals.	CII

<b>Risk</b>	<b>Description</b>	<b>Action to avoid or mitigate risk</b>	<b>Risk rating</b>
		Ensure that a robust review of the operational portfolio is carried out.	
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

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

## 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 the Cabinet 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.

## 11. Decision by the Chief Executive

11.1. That the Chief Executive (using urgency powers), having consulted with the Leader of the Council and the Leader of the Conservative Group, agrees the recommendation as detailed in section 1 of the report.

Richard Hicks, Chief Executive

13 November 2024

### Lead officer contact

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### Appendices

None

### Background papers

[Property Asset Management Strategy & Property Review, report to Cabinet, 29 October 2024](#)  
[CIPFA report dated January 2024](#)