

# MIDDLESBROUGH COUNCIL

## EXECUTIVE REPORT

### Management of the Council's Land and Property Assets

Executive Member for Commercial Assets & Income: Stephen Bloundele

Executive Director for Commercial & Corporate Services: Tony Parkinson

17<sup>th</sup> March 2015

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### PURPOSE OF THE REPORT

1. To seek approval for new arrangements for the management of Council Land and Property assets.

### SUMMARY OF RECOMMENDATIONS

2. It is recommended that the Council's Land and Property assets are managed as outlined within the proposed Estate Strategy within four portfolios for specific purposes;
  - To generate revenue streams
  - To generate capital receipts
  - To stimulate economic activity
  - To support communities
3. That the Asset Disposal Process outlined in this report, together with the proposed scheme of delegation is implemented.

### IF THIS IS A KEY DECISION WHICH KEY DECISION TEST APPLIES?

4. It is over the financial threshold (£150,000)   
It has a significant impact on 2 or more wards   
Non Key

### DECISION IMPLEMENTATION DEADLINE

5. For the purposes of the scrutiny call in procedure this report is

Non-urgent   
Urgent report

If urgent please give full reasons

## **BACKGROUND AND EXTERNAL CONSULTATION**

6. Executive of 20th May 2014 approved a revised approach to the management of the Council's non-strategic land and property assets.
7. The revised approach was recommended by Deloitte and proposed that the Council managed its non-strategic assets, (those held for reasons other than direct service delivery) based upon the primary reason they are held within 4 portfolios;
  - o To generate revenue streams
  - o To generate capital receipts
  - o To stimulate economic activity
  - o To support communities

### **Generating revenue streams**

8. The primary objective of this portfolio is to maintain and grow the revenue income stream associated with such assets, which currently stands at approximately £2.6 million per annum.
9. Currently, 53% of this income is generated by less than a quarter of the assets. These are the core of the investment portfolio and need to be proactively managed and developed. Remaining assets need to be reviewed to establish if it is in the Council's best interest to retain or sell them. This will result in a smaller, more manageable and productive estate which the Council will "sweat" to ensure it maximises income opportunities.
10. Maintaining and growing this income stream may require targeted investment to improve/extend the life of the assets. It may also transpire that there is a business case to purchase further assets with rental potential in order to further grow the income stream. This would require further capital investment and would be the subject of further reports once a firmer view on the future of current sites could be provided.

### **Generating Capital Receipts**

11. This relates to assets where it is deemed that the best option for the Council is to dispose of them and realise a capital receipt. They will form part of a planned disposal programme, ensuring the correct supply and demand balance in the market place. Furthermore, the level of deduction for "abnormal costs" will be minimised through investing in planning approval, ground investigations and detailed site searches/investigations in advance of any tender exercise taking place. In some instances this may also involve creating cleared sites through demolition if it is seen to enhance the site value.

## **Stimulating Economic Activity**

12. The aims and aspirations for these assets will be driven by regeneration plans with a primary purpose of job creation and inward investment; however secondary drivers such as construction and apprenticeships will also be a consideration.
13. Also within this portfolio will be the Enterprise Network which supports SMEs comprising:
  - Broadcasting House
  - Multi Media Exchange
  - Stockton Street Workshops
  - Beresford Buildings
  - Bramthorn Business Centre
  - Southlands Centre

## **Supporting Communities**

14. This portfolio comprises lease agreements which support local and national charities, voluntary organisations and community groups within Council property. Many of these arrangements involve either no rent paid to the Council (peppercorn), or rents below market value in recognition of their role in supporting or supplementing Council services and assist in reducing pressure on Council resources.
15. The Council forgoes approximately £125k per annum in notional rent in support of these organisations. In recent years the Council has adopted a Community Asset Transfer Policy which allows such organisations to take our surplus Council property, typically on a peppercorn for 25 years, provided they have a robust business case and the benefits to the Council are clearly captured and quantified.
16. In future all new leases within this portfolio will demonstrate appropriate social/community benefits and will be monitored accordingly. Likewise any historic leases will be reviewed at renewal and will demonstrate that they meet the appropriate outcomes. Where this not the case the lease may not be renewed (subject to specified legal advice) or a commercial rent levied.

## **Operational Council Assets**

17. In order to capture the Council's entire property portfolio consideration is required regarding the management of operational assets from which council services are delivered. This will ensure that they are appropriately utilised and fit for purpose. This comprises central administration buildings and sites including libraries, leisure centres, community hubs, social care facilities, schools and the custodian portfolio.

18. Managing these portfolios effectively demands a reconfiguration of the Valuation and Estates Service to ensure that the appropriate capacity and skill sets are in place. It involves having dedicated expertise for each portfolio to ensure they are managed in a focused and disciplined way to achieve the outcomes set for them. Enterprise Network staff will become part of the team managing the Stimulating Economic Activity portfolio. Finally the Valuation & Estates team will be renamed the Commercial Estate Management Team to better reflect their focus with technical support provided by the Asset Management Team. The restructure will be funded from vacancies within the current structure and a reduction in services currently procured from Mouchel.
19. In order to properly manage the Estate in the way described an IT solution is required that can provide performance data to enable informed decisions on the size and future shape of the various portfolios to be made. This information would enable the five portfolio's to be effectively managed through the regular monitoring of Key Performance Measures, such as unit costs, profitability and utilisation in a simple "dashboard" report.
20. Finally in order to ensure that asset disposals are undertaken in a planned, documented and auditable manner and to ensure the process is in keeping with the ethos of Middlesbrough Manager a new asset disposal process and scheme of delegation is required.
21. Historically the Council has disposed of property on an ad hoc basis, often driven by events and not always having clarity around the desired outcomes.
22. Appendix 1 sets out a process by which properties will be continually assessed, with core assets either maintained or replaced with new facilities and non-core properties which are poorly performing / maintained earmarked for disposal.
23. Once earmarked for disposal a Disposal Business Case will establish the preferred use for the asset, taking into account Regeneration plans or each area and its market value based on this use, together with other outcomes required from the disposal. This will include the potential social value offered by any sale, such as job creation and community benefits and how this relates to the value of any potential capital receipt.
24. The disposal approval process allows for a speedier decision making and a greater delegation of responsibilities as outlined below;
  - Head of Strategic Assets up to £50,000 (60% of transactions).
  - Director of Corporate & Commercial Services and Assistant Director of Environment, Property and Commercial Services up to £150,000 (12% of transactions).

- Executive Sub Committee for Property over £150,000 (28% of transactions).
  - Any proposed sale that is less than the balance sheet asset value will require the approval of the Chief Finance Officer prior to any of the authorisations taking place. This will apply to any proposed sale:-
    - **For Assets valued on balance sheet below £50,000**  
£10,000 variance from asset value
    - **For Assets valued on balance sheet between £50,000 and £150,000**  
Above 20% variance from asset value
    - **For Assets valued on balance sheet above £150,000**  
Above 20% variance from asset value or £150,000 variance from asset value
25. All new leases, renewals, variations and associated rent reviews will be signed off by the Commercial Property Manager.
26. A framework is to be developed which will assist in assessing the wider social, regeneration and community benefits so that disposal process adopted a holistic approach.

## **IMPACT ASSESSMENT (IA)**

27. An impact assessment will be carried out for each of the proposed five portfolios to quantify how this will affect the various stakeholders.

## **FINANCIAL, LEGAL AND WARD IMPLICATIONS**

28. The management, acquisition and disposal of property are governed by the Council's standing orders and government legislation.
29. The proposed financial thresholds for disposals and the estimated costs for a new property management module are set out elsewhere in this report

## **RECOMMENDATIONS**

30. The Council's property is managed within the five distinct portfolios as set out in the Estate Strategy.
31. Property is managed in line with the proposed Estate Strategy and Deloitte's recommendations and the restructure of the current Valuation & Estates function outlined in this report.
32. The proposed Asset Disposal Process is approved together with the proposed scheme of delegation.

## **REASONS**

33. Ensure the Council's property is managed in accordance with Deloitte's recommendations.
34. The Council has a disposal process which is responsive, fit for purpose and accords with the Middlesbrough Manager principals.
35. Commercial Property Management (formerly Valuation & Estates), are reconfigured to ensure effective management of the new portfolios.

## **BACKGROUND PAPERS**

36. The following background papers were used in the preparation of this report:  
Executive, 20<sup>th</sup> of May 2014, "Middlesbrough Council Estate Strategy 2014-19".

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