MIDDLESBROUGH COUNCIL

EXECUTIVE REPORT

Middlesbrough Council Estates Strategy 2014-19

The Deputy Mayor and Executive Member for Finance and Governance: Cllr David Budd
Executive Member for The Change Programme: Cllr Mike Carr
Executive Member for Commercial Assets and Income: Cllr Stephen Bloundele

Executive Director of Neighbourhoods and Communities: Kevin Parkes

20 May 2014

PURPOSE OF THE REPORT

1. To propose a revised approach to the management of the Council's non-strategic land and property assets.

SUMMARY OF RECOMMENDATIONS

2. That the Council's current non-strategic asset portfolio is reconfigured into four separate but interrelated thematic portfolios, and managed accordingly.

3. That to facilitate this, the preliminary action plan at Appendix 2 is implemented.

4. That Executive receives an update report within the next three months, outlining progress and firm proposals for the future management of the four portfolios.

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

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

DECISION IMPLEMENTATION DEADLINE

For the purposes of the scrutiny call in procedure this report is:

Non-urgent	X
Urgent report	

BACKGROUND AND EXTERNAL CONSULTATION

Background

5. On 4 April 2012, Executive Sub-Committee for Property approved two reports that outlined (i) the principles for a programme of disposal of the Council's non-strategic assets, and (ii) the first phase of that disposal programme. On 29 July 2013, a second phase was approved.

6. Non-strategic assets are those that are held for reasons other than direct service delivery or strategic development, and include industrial and retail units, ground leases, and so on.

7. The disposal programme is tactical, in that it includes only those assets that will not appreciate in value (in capital or income stream terms) significantly in future, and the sale of which would not prejudice future development in the town.

8. A reserve price was set for each disposal, using average capital value as a starting point, with appropriate upward adjustments made where relevant for lost income. In some cases the reserve was set by valuer's recommendation in the light of lease conditions and/or market circumstances.

9. It was agreed that capital monies accrued from the non-strategic assets programme would be used by the Council to repay or avoid capital borrowing and so improve the Council's revenue position by avoiding interest payments. Accordingly revenue savings targets were applied to this project in the Council's budgets for 2013/14 and 2014/15, with provisional targets are in place for 2015/16 and 2016/17.

10. The non-strategic assets programme is currently on plan to meet the budget targets set for it, though the phasing of these may be amended to account for delays in completing legal negotiations.

11. Executive Sub-Committee for Property was advised that Phase 2 of the disposal programme represented the majority of relatively simple, economically advantageous disposals open to the Council, and that moving forward, an Estates Strategy would be developed to identify how remaining non-strategic assets could be best utilised in support of the Mayor's Vision for Middlesbrough, in particular driving local growth.

12. In July 2013, Deloitte Real Estate was commissioned to work with the Council in developing the Estates Strategy. Deloitte proposes that the Council adopts a more systematic and innovative method of managing its portfolio.

13. The following sections summarise the key findings and recommendations from this work. Deloitte's full report is attached at Appendix 1.

Current position

14. The strategy document provides a summary of the Council's current non-strategic estate and how it is managed. The key findings are as follows:

    - The non-strategic portfolio comprises a range of assets, but is largely held for income generating purposes. The Council has begun to rationalise the estate through the NSAR initiative, though this is on a piecemeal basis.
    - The portfolio provides a substantial income stream of £2.6m per annum, though the costs to the Council of managing this income stream are assumed to be significant, they are not fully known.
    - Management information is of poor quality. A key challenge for Deloitte in undertaking this work was establishing accurate baseline information on the Council's non-strategic assets and the actual costs of managing the portfolio.
    - The performance of all assets within the portfolio are judged against financial KPIs, even when income generation is not the main reason for holding the asset.
    - The Council does not adopt a systematic or proactive approach to managing its non-strategic portfolio. In particular there is no reinvestment in the estate in order to maximise income streams.

Supporting the Mayor's Vision

15. Deloitte advises that there are two approaches to aligning the asset base to the Mayor's Vision and associated strategic priorities:

    - direct provision for uses that support strategic priorities e.g. economic development; or,

- generating income that can be reinvested to support strategic priorities.

16. The Council utilises both of these approaches, but not an explicit or integrated manner. For example, assets are currently categorised by interest (e.g. Ground Lease) rather than under the purpose for which they are held (e.g. Investment).

17. Furthermore there is no relationship between the disposal programme and capital investment in the wider portfolio, with receipts being used to improve the Council's revenue position. A preferable option may be to purchase higher value assets, with a better and/or more sustainable income stream.

New approach

18. Deloitte proposes that the Council's recategorises its non-strategic assets under the following themes, creating four separate, but interrelated portfolios, which would have different management objectives.

Portfolio	**Management objectives**
Investment	Core investment held for purely for revenue stream to reinvest in services.
Economic Development	Assets held to directly support economic activity and job creation – may bring direct income but has wider purposes.
Community Enterprise	Assets held to directly support community use - may bring cost to the Council rather than income, but will generate social capital that benefits the town.
Capital Receipts	Assets that do not meet the above criteria and will be programme for disposal. Receipts should be ring-fenced for reinvestment.

19. Operating a genuine investment portfolio could open up significant opportunities to the Council. For example, Deloitte has outlined options that could be taken forward through which the Council could generate an up-front capital receipt from its guaranteed income streams to reinvest in the portfolio and so increase revenue.

20. Reinvestment is necessary to guarantee and improve the overall revenue stream from the current portfolio, which will decrease over time. Enhancing the Council's investment portfolio will provide a sustainable source of income and mitigate the loss of funding from central Government. This is particularly important as the current approach in Whitehall is to make local authorities be more dependent on locally generated income sources for their financing.

21. A key point in respect of reinvestment is that, if assets are to be held purely for income purposes, then the Council should not necessarily be constrained by its administrative boundary and could invest in opportunities elsewhere, as is common practice for pension funds, for example. However, there will be a need to determine whether such an approach accords with the wider objectives of sustaining the local economy and stimulating investment in the town.

22. In respect of the capital receipts portfolio, Deloitte has proposed that the Council could increase receipts by (for certain assets) undertaking appropriate market readiness actions. An example would be the Council de-risking development sites it is disposing of by addressing matters such as planning approvals and site remediation before marketing. Additionally the Council could extend its participation in the development of sites by being an actual partner in some forms of development. This would assist in the Council developing its property portfolio and also ensure that it enables schemes to be delivered.

23. The approach described above would transform the Council's approach to managing its assets, bringing it in line with best practice.

Next steps

24. It is proposed that the Council reconfigures its non-strategic asset portfolio into the four thematic portfolios outlined above and agrees appropriate management and governance arrangements for each, in order to ensure that best value and appropriate oversight is achieved.

25. Deloitte has made a number of improvement recommendations, which form the basis of the preliminary action plan at Appendix 2. Given that the Council does not have significant experience in the management of property investment portfolios, specialist input will be required to assist in the implementation of this action plan. As such, Deloitte will be commissioned to support as appropriate in the short-term.

26. It is proposed that a further update is provided to Executive within three months, which will confirm the scope, management arrangements and targets for each of the four portfolios, together with a revised action plan and risk register.

IMPACT ASSESSMENT

27. An impact assessment will be completed once final proposals in relation to each portfolio are made. This will form part of the follow-up report to Executive.

OPTION APPRAISAL/RISK ASSESSMENT

28. There is a range of options in relation to the recommendations outlined in this report.

Option 1: Status quo – not recommended

29. Deloitte's work has highlighted that the Council could manage its non-strategic asset portfolio more efficiently and effectively, therefore the status quo is not recommended.

Option 2: Revised approach – recommended

30. The proposals made by Deloitte, which has extensive experience in this field, will allow the Council to maximise the use of its non-strategic assets to support the Mayor's Vision, and are so recommended.

Option 3: Alternative approaches – not recommended

31. There a range of alternative approaches that could be brought forward (e.g. sale of the entire commercial property portfolio) but none of these are thought to offer as much value to the Council over the longer-term.

FINANCIAL, LEGAL AND WARD IMPLICATIONS

32. **Financial implications** – Implemented effectively, the recommendations would ultimately result in an enhanced and more sustainable revenue stream to the Council, mitigating the unpredictability of central Government funding. Precise expectations will be brought forward in the proposed update report to Executive.

33. **Legal implications** – There are no legal impediments to the recommendations in this report. Some options outlined by Deloitte would be relatively complex legal matters for which the Council may require specialist advice; this will be confirmed in the update report.

34. **Ward Implications** – The non-strategic asset portfolio includes assets within all wards of Middlesbrough.

RECOMMENDATIONS

That Executive formally considers the report and considers the approval of the following:

35. that the Council's current non-strategic asset portfolio is reconfigured into four separate but interrelated thematic portfolios, and managed accordingly;

36. to facilitate this, the preliminary action plan at Appendix 2 is implemented;

37. that Executive receives an update report within the next three months, outlining progress and firm proposals for the future management of the four portfolios.

REASONS

38. To ensure that the Council drives the maximum value from its non-strategic asset portfolio.

BACKGROUND PAPERS

Report	Committee	Date
Review of Non-Strategic Assets	Executive Sub-Committee for Property	4 April 2012
Review of Non-Strategic Assets – First phase disposals	Executive Sub-Committee for Property	4 April 2012
Review of Non-Strategic Assets – Second phase disposals	Executive Sub-Committee for Property	29 July 2013

AUTHOR: Paul Stephens, Policy and Improvement Manager
TEL NO: 01642 729223

Address: Civic Centre, Middlesbrough, TS1 2QQ
Website: http://www.middlesbrough.gov.uk