

Report of:	Councillor Chris Hobson - Executive Member for Finance & Governance James Bromiley - Strategic Director of Finance, Governance & Support
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Submitted to:	Executive - 20 March 2020
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Subject:	Estates Strategy - Commercial Property Portfolio Review
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Summary

Proposed decision(s)
That in accordance with the continuing implementation of the Council’s Estates Strategy, Executive Committee notes the outcome of the Non Operational Land and Property Portfolio Review and approves adoption of the recommendations made in respect of the future management and development of the Council’s Estate.

Report for:	Key decision:	Confidential:	Is the report urgent?
Decision	Yes – impacts upon all wards	No	No

Contribution to delivery of the 2020-23 Strategic Plan		
People	Place	Business
Adoption and implementation of the recommendations made will enable the Council to put in place protocol designed to regulate the process of Estate Management – from which the Council can stimulate economic activity for the benefit of people living and working within the Borough.	Review of the mechanisms used to manage and treat the Non Operational Estate will help ensure balanced decisions are taken by the Council – where judgement is required to consider providing facilities that enhance the reputation of Middlesbrough.	The Council’s Estates Strategy provides a decision making framework from which the Council can work effectively to create opportunities – that support both physical and social regeneration across the Borough.

Ward(s) affected
All Wards

What is the purpose of this report?

1. To provide an update on the implementation of the Council's Estates Strategy and seek approval for changes designed to enhance current and future Estate Management Practice

Why does this report require a Member decision?

2. The adoption and implementation of revised and improved Estate Management Practice forms part of the Council's Estates Strategy and has the potential to impact upon all wards.

Report Background

3. Middlesbrough Council holds a significant asset portfolio that is used to deliver services, support businesses and contribute to the well-being of the Town.
4. Effective management of the Non Operational Land and Property Portfolio is essential if the Council is to maximise the benefits that can be derived from its Estate and meet the changing needs of Middlesbrough.
5. Continuing review of the Non Operational Portfolio and the processes used to manage the Council's Estate is necessary in order to provide a measured, balanced and cost effective approach to Estate Management. Consistency in this approach will provide clarity to Officers, Councillors, Businesses and the General Public in their respective dealings with any asset and property related matters.
6. The proactive management of the Non Operational Portfolio is an essential part of the delivery of the Council's Estates Strategy, which is intended to support the Mayor's priorities around people, place & business in addition to delivering the Council's Strategic Priorities of:
 - Physical regeneration
 - Social regeneration
 - Business imperatives
7. The Non Operational Portfolio is managed by the Valuation & Estates Team and in the financial year 2019/2020 consisted of @ 374 agreements covering a wide and varied range of purposes, such as industrial units, shops, offices, ground leases, wayleaves, easements and licences. In the same accounting period, the Portfolio [see Appendix 1] was 93.5% occupied and generated @ £2.38M in annual revenue income for the Council.
8. The proportion of unrecovered debt currently stands @ 5% of the annual income stream for the accounting period 2019/2020, and savings generated from the negotiation of new, and review of existing agreements totals @ £65,000 for the same accounting period.
9. In accordance with Estates Strategy, the Valuation & Estates Manager has delegated responsibility to authorise occupation and to grant various forms of agreements - such as easements, wayleaves, leases and licences. In scenarios where the acquisition or disposal of property for commercial purposes is required, the Council's Asset Acquisition Policy & Asset Disposal Policy set out the respective schemes of delegation.

10. Estates Strategy Board, currently chaired by the Strategic Director of Finance, Governance & Support, meets on a bi-monthly basis in order to consider, direct, implement and monitor the Council's Estate Management Strategy.

Implementation of the Estate Management Strategy

11. Following the issue of a VFM 'unqualified' opinion by the Council's External Auditors during the financial year 2018/2019, the Council has maintained progress and looked at further aspects of the Estates Strategy during 2019/2020 – in order to improve the efficiency of the Valuation & Estates Service, and maximise the benefit that the Town can derive from the Council's Non Operational Portfolio.
12. In addition to the renewal of the standing Asset Disposal Policy and the production of a new Asset Acquisition Policy, the Council has further invested in its Valuation & Estates Team, completed the transfer of its records to an integrated cloud based data storage system and in order to improve performance, undertaken this review of its Non Operational Estate.

Review Outcomes

13. In addition to the promotion of economic, social and environmental well-being, the primary objective of the Council in holding a Portfolio suitable for commercial use is to grow the revenue income stream associated with that asset base. Whatever the make-up of the Portfolio, it needs to be proactively managed and developed if the Council is to maximise its income opportunities.
14. Maintaining the income stream and developing the opportunities for its growth may require targeted investment by the Council if it is to improve, extend or even sustain the life of some of its assets. In addition to this primary consideration, existing review processes must also identify and consider whether the acquisition and disposal of assets is required in order to generate further income streams and deliver cost savings.
15. The recommendations generated by review of the Non Operational Portfolio include the following proposed developments in respect of the Council's Estates Strategy:
 - The timely programmed review and renewal of specifically identified occupation agreements in order to generate potential savings on an annual basis. .
 - Focussed management of complex, multi-let assets, such as Middlesbrough Bus Station, Broadcasting House and the Enterprise Centres to ensure optimum performance of the assets.
 - The identification, and where possible, vacation, re-appropriation & letting of under-utilised assets particularly those being occupied/held by Council Service Users.
 - Further identification of, and investigation into poorly performing assets, so as to determine whether there is a case for disposal in order to limit potential long term cost liability.
 - Further identification of, and investigation into the Councils best performing assets, to enable consideration to be given to future investment in order to maintain and enhance current income streams.

- Adoption of protocol for the treatment of assets occupied by Charitable, Community & Voluntary Organisations, as well internal Council users, so as to ensure that operational/maintenance costs are met by the respective occupiers.
- Adoption of a consistent policy for the management of assets occupied by Council Service Users, so as to ensure that the notional rent charge applicable is reflected in the Non Operational Portfolio income targets on an annual basis.
- Adoption of a standardised approach to the granting of, and future management [including whole life costing] of premises subject to Community Asset Transfer [CAT].
- Adoption of a standard approach to the calculation and collection of service charge demands.
- Transfer of records relating to the Council's Enterprise Centres to the Estates module of TF Cloud. It is also proposed that protocol for authorising licence based occupation is formalised, and the process/terms on which start-up [licence] occupiers move forward, on & into intermediate stage lease agreements is clarified for consistency.
- Undertake a review of ground leases held by the Council to determine whether disposal/retention of the same should be considered going forward.
- To formalise the accounting adjustments required where assets and property that are subject to disposal should continue to be credited to the income account in order to mitigate any possible loss of revenue stream against target.
- To agree that future income generated via the Non Operational Portfolio is correctly coded to the appropriate Cost Centre rather than to the originating/holding Service User Team.
- Produce a standard protocol to govern the monitoring, management & recovery of debt in relation to the whole of the Non Operational Portfolio
- Produce a standard protocol and approach for working with utility companies to grant wayleaves, easements and deeds for supply infrastructure and substation requirements.

What decision(s) are being asked for?

16. That in accordance with the continuing implementation of the Council's Estates Strategy, Executive Committee notes the outcome of the Non Operational Land and Property Portfolio Review and approves adoption of the recommendations made in respect of the future management and development of the Council's Estate.

Why is this being recommended?

17. To provide clarity to those reliant upon, or working with asset and property related matters, ensuring that the Council implements and complies with good Estate Management Practice.
18. To ensure a fair and auditable process is in place for the future management of the whole of the Non Operational portfolio

19. Implementation of the outcome recommendations will enhance existing Estates Strategy processes, allowing the Council to effectively support physical and social regeneration across Middlesbrough.
20. Adoption of the outcome recommendations will ensure the long term future development and sustainability of the Portfolio, thus supporting the delivery of the Council's Medium Term Financial Plan.

Impact(s) of recommended decision(s)

Legal

21. The adoption of the review outcomes and implementation of the Estates Strategy does not create any specific legal issues, although the process actions and any subsequent steps to implement the enhancements would need to be undertaken within the Council's legal framework.

Financial

22. The management, acquisition and disposal of assets and property is governed by the Council's standing financial orders and Government legislation.
23. There are no direct financial implications to report – the adoption and implementation of the recommendations set out within this report will provide accounting clarity and improve the financial performance of the Council's Estate, by:
 - Limiting financial liability for the day to day running costs incurred by non-commercial occupiers.
 - Accounting for the disposal of commercial property and assets as income savings, in order to properly mitigate the financial impact on annual income targets and align with existing Finance Team budget management practice.
 - Ensuring that income revenue streams generated are effectively controlled and monitored.
 - Setting out a programme of income related savings to be implemented during the financial years 2020/2021 & 2021/2022 [Appendix 2].

Ward

24. The adoption of the review outcomes and implementation of the Estate Strategy will potentially impact on all wards over the duration of the policy.
25. Members will be consulted on proposals that are made in respect of individual assets situated within their ward boundaries, as part of normal planning and consultation processes.

Policy Framework

26. The proposal does not require any change to the Council's existing policy framework.
27. The decision aligns to the Mayor's priorities around people, place & business, by putting in place processes that ensure the Council works as effectively as possible in support of physical and social regeneration.

Equality and Diversity

28. A Level 1 (Initial Screening) Impact Assessment (IA) will be carried out on individual proposals, if deemed appropriate.

Risk

29. Adoption of the review outcomes and implementation of the Estate Strategy will help address risk and remove potential for challenge by the adoption of a robust and responsive, fit for purpose decision making framework.

Actions to be taken to implement the decision(s)

30. Subject to Executive Committee approval, the Council moves to:
- a. Adopt the outcome recommendations from the date of determination
 - b. Commence implementation of the outcome recommendations from the date of determination
 - c. Grant the Valuation & Estates Manager delegated authority to determine the final detail of the review outcomes recommended.

Appendices

Appendix 1 – Commercial Property Portfolio

Appendix 2 – Programmed Portfolio Income Savings

Background papers

The following paper was used in the preparation of this report:

Body	Report title	Date
Executive Report	Management of the Council's Land & Property Assets	17 March 2015

Contact: David Velemir, Valuation & Estates Manager

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Appendix 1 – Commercial Property Portfolio

Category	No. of Assets	Description
Industrial & Commercial	121	Units & Estates
Retail	63	Units & Shops
Ground Leases	100	Land, Public Houses, Farms & Other
Miscellaneous Properties	90	Garages, Car Parks, Cafes, Nurseries, Day Care Units & Community Facilities
Other	Not Known	Licences, Wayleaves, Easements, Business Centres & Enterprise Workshops
Total	374	

Appendix 2 – Programmed Portfolio Income Savings

Financial Year	Transaction Category	No. of Cases Identified	Estimate Value
2020/2021	Lease Expiry	1	£6,000
	New Letting	8	<u>£84,975</u>
			£90,975
2021/22	Lease Expiry	18	£5,000
	New Letting	5	£25,000
	Rent Review	14	£5,000
	Other	8	<u>£2,500</u>
			£37,500
Total		54	£128,475