

<b>Report of:</b>	Charlotte Benjamin, Director of Legal & Governance Services Councillor Chris Hobson, Executive Member for Finance & Governance
-------------------	---

<b>Submitted to:</b>	Executive - 29 September 2020
----------------------	-------------------------------

<b>Subject:</b>	Estates Strategy
-----------------	------------------

**Summary**

<b>Proposed decision(s)</b>
That Executive Committee approves adoption and implementation of the revised Council Estates Strategy.

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

<b>Contribution to delivery of the 2020-23 Strategic Plan</b>		
<b>People</b>	<b>Place</b>	<b>Business</b>
Adoption and implementation of the revised Estates Strategy will 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 Estate Portfolio 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.

<b>Ward(s) affected</b>
All Wards

## **What is the purpose of this report?**

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

## **Why does this report require a Member decision?**

2. The adoption and implementation of the revised Estates Strategy has the potential to impact upon all wards.

## **Report Background**

3. Middlesbrough Council holds a significant Estate Portfolio that is used to deliver services, support businesses and contribute to the well-being of the Town.
4. Effective management of the 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 Estate and the processes used to manage the Portfolio 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 property assets 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. An Estates Strategy Board, currently chaired by the Director of Finance, meets on a bi-monthly basis in order to consider, direct, implement and monitor the Council's Estate Management Strategy.

## **Implementation of the Estate Strategy**

8. 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 Estate Portfolio.
9. In addition to the creation of an overriding Asset Management Framework, the renewal of the standing Asset Disposal Policy and 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 undertaken a full review of the Non Operational Estate in order to improve performance, benchmarking and monitoring.

10. The revised Estates Strategy [attached at Appendix A] continues the Council's high level approach of splitting the Portfolio into five distinct segments, predicated on the following asset use bandings:
  - Direct Service Provision
  - Investment
  - Economic Development & Regeneration
  - Community Enterprise
  - Capital Receipt Programme
11. The revised approach being adopted by the Council follows on from the full review of the Non Operational Portfolio, the key findings and actions of which have been agreed and accepted by Estates Strategy Board, and approved by Executive Committee.
12. Forming part of the Council's Asset Management Framework, the revised Estates Strategy establishes clear protocols, policies and co-ordinated management approaches for each of the individual asset segments set out in paragraph 10 above.
13. The approach being adopted is further predicated on meeting fundamental performance criteria that are designed to maximise the asset base to its full potential – driving capital and revenue streams, maximising use opportunities and minimising costs.
14. In addition to the promotion of economic, social and environmental well-being, the primary objective of the Council in holding a Portfolio 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.
15. 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.

#### **What decision(s) are being asked for?**

16. That Executive Committee approves adoption and implementation of the revised Council Estates Strategy.

#### **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 Estate Portfolio.
19. The adoption of the revised Estates Strategy will enhance existing Estates Management processes, allowing the Council to effectively support physical and social regeneration across Middlesbrough.
20. Adoption of the revised Estates Strategy 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 revised 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 revised Estates Strategy will provide accounting clarity and improve the financial performance of the Council's Estate Portfolio.

### ***Ward***

24. The adoption of the revised Estates 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 and implementation of the revised Estates 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 adopt the revised Estates Strategy from the date of determination.

## **Appendices**

Appendix A – Estate Strategy

## 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
Executive Report	Estates Strategy – Asset Acquisition Policy	21 January 2020
Executive Report	Estates Strategy – Asset Disposal Policy	21 January 2020
Executive Report	Estates Strategy – Commercial Property Portfolio Review	17 March 2020

**Contact: David Velemir, Valuation & Estates Manager**

**Email: [david\\_velemir@middlesbrough.gov.uk](mailto:david_velemir@middlesbrough.gov.uk)**

# Estate Strategy



# Estate Strategy

## Strategy Update

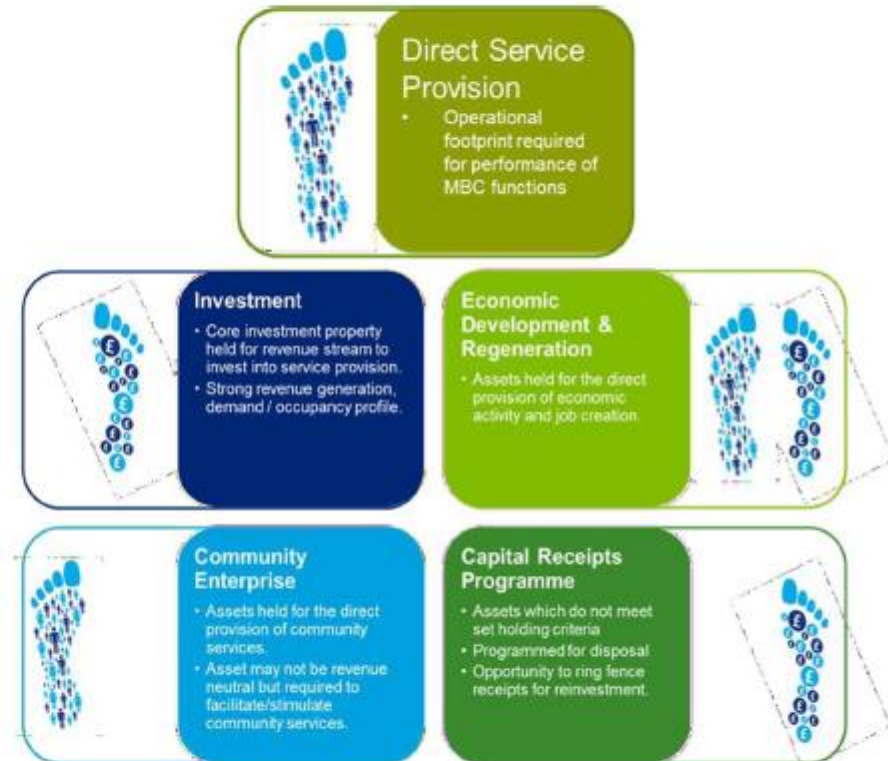
Deloitte Real Estate was instructed by Middlesbrough Borough Council (MBC) to provide a short Estate Strategy document for the purpose of aligning the non-operational estate to MBC's strategic priorities. This was produced in May 2014 and has subsequently been used by the Council to inform a revised estate management strategy.

In December 2014 Deloitte Real Estate was engaged on a follow-on exercise to:

- Assist the Council in developing potential objectives and associated key performance indicators for the identified segmented portfolios; and
- In relation to the KPIs selected by the Council, provide appropriate benchmarking and target information that will allow the Council to set appropriate targets for each asset and each of the segmented portfolio overall.

From this MBC adopted a five segmented portfolio approach for its estate which has been expanded from purely the non-operational portfolio and now includes operational property also.

MBC is seeking to maximise this asset base in line with its adopted criteria which in broad terms will drive revenue, maximise utilisation and minimise costs



# Estate Strategy

## Strategy Development

### Direct Service Provision

- Establish total area of operational space
- Confirm operational requirements for each Service in view of recent behavioural changes to home based working
- Consider storage requirements and current facilities
- Potential for moving to hub working?

### Investment Portfolio

Opportunity for growth will require reinvestment

- Important to reinvest to a level that maintains the revenue stream
- Seek opportunities to acquire investments beyond the Council's administrative boundary and beyond its typical operational remit - shopping centres i.e.: Captain Cook Square
- Maximise revenue stream by efficient management of the portfolio
- Understanding all relevant performance requirements, benchmarks & KPIs



# Estate Strategy

## Strategy Development



# Estate Strategy

## Strategy Development

### Community Enterprise

Opportunity to standardise & investigate transfer potential

- Property which provides for community activity
- Likely to impact upon a wide range of property asset types and lettings
- Most likely to have emotive management issues and sensitivities attached
- Focus on the revenue / cost balance whilst ensuring that providers can prove their ability to sustainably maintain buildings going forward

### Capital Receipts Programme

Programme asset disposal and utilise opportunities to plan and undertake 'market readiness' actions

Market Readiness



Traditional Sale  
Development Partner  
Ground Rent  
Joint Venture  
Direct Development



Increased Value with Increased Participation

# Estate Strategy

## Strategy Development

Following on from the Deloitte Real Estate work, MBC has undertaken a full review of the non-operational portfolio, the key findings and action points of which have been agreed and accepted by the Estates Strategy Board and approved by Executive Committee. These now form the basis of a new strategy, and include:

- The establishment of an enhanced, efficient and proactive structure for governance, with clear protocols identified through an Asset Management Framework that includes:
  - Policy Statement
  - Strategy Document
  - Action Plans for both the Operational Portfolio and Investment Portfolio
  - Estates Strategy including an Asset Disposal Policy and Asset Acquisition Policy
- The reconfiguration and embedding of the Council's Valuation & Estates Team in order to provide best practice management and deliver the strategy enhancements.
- To consider a more coordinated approach to the building management, letting and maintenance of all Council assets, via a single Service lead.
- To establish clear protocols and lettings policies for each of the established five categories of asset.
- To consider whole life costing and planned maintenance programmes for each of the categories of asset.
- Continued monitoring/embedding of the data management system TF cloud with all Asset Management and Valuation & Estates Staff.
- The transfer of budget monitoring and management responsibility to the Valuation & Estates Team. This will enable accurate measuring of costs associated with the property portfolio and the ability to clearly predict the Councils current and future revenue stream.

# Estate Strategy

## Strategy Development

A number of common measurement indicators are applicable to the segmented portfolio. These relate to efficient and effective property management, and focus on the driving and protecting of value.

These measures ensure that cash flows are maintained and will not be prejudiced in any way. Unbanked funds will clearly remain at risk at all times, and the risk of shortfalls in cost recovery through service charges or the obligation to undertake statutory compliance work will hit the bottom line directly.

As it is essential to understand the current or opening asset position, all of the benchmark and performance indicators must reflect the various realities that affect each individual asset. In terms of the setting of appropriate targets, it is essential for there to be a clear understanding of the base position first, and then to set an acceptable timeframe in which to achieve this on an incremental level, i.e. a 3 year stepped improvement profile.

These common measures include:

**Asset Management Strategies (AMS);** An overall and segmented strategy drilling down on each asset with reference to market rents and tenancy profile, together with consideration of individual tenancies should be adopted. This will be based on either a defensive value maintenance approach or value adding initiatives, albeit these items are not mutually exclusive. Within the AMS document, timeframes for which the respective milestones are to be achieved by should be set.

An AMS is a live document, and will need to be the subject of constant monitoring and updates as varying challenges and opportunities may arise over time as the market changes.

**Rent collection/credit control targets;** Consideration of a target percentage rent collection rate, within say the first week after quarter day, with a sliding scale over a pre-agreed timeframe for the improvement of performance by which a 100% collection should be targeted.

# Estate Strategy

## Measuring Performance

In addition, there should be agreed targets for the recovery of any subsisting arrears although it would be expected for this be at a lower percentage than the above given the possible need to write off bad debts.

**Service charge administration:** As per the current RICS Code of Practice for commercial properties, there should be a focus on three main areas:

- Budget setting – to be agreed and issued to tenants with explanatory notes at least one month before the start of each accounting period.
- Annual reconciliations: completed in a timely fashion with audited and certified accounts circulated to tenants, together with full explanatory notes within four months of the service charge year end; and
- Interim reporting – production of regular spend to date updates with a comparison to approved budgets on at least a quarterly basis, explaining any major variations, or unexpected expenditure items.

**Statutory compliance:** Ensure that all statutory and other regulations are complied with in respect of all assets, the principal areas being:

- Independent annual Health & Safety Audits
- Annual Fire Risk Assessments and associated matters
- Lift compliance – half yearly inspections
- Legionella Surveys and management plans
- Asbestos surveys and management plans
- Electrical Testing
- Gas Safe compliance

**Revenue Performance:** The IPD Index is one of the main market indicators providing performance measurement in the UK and Ireland, based on over 360 investment portfolios. There are a variety of monthly, quarterly and annual indices which can be broken down at a regional level, meaning that returns from the subject portfolio can be compared to the wider market performance. In addition to this, IPD offer a service which can provide bespoke portfolio performance analysis subject to the provision of the respective portfolio data.

There are also a number of bespoke segment targets to measure performance, which reflect MBC's rationale and their drivers for the particular segment. These include

### Economic Development & Regeneration

For this segmentation, it may be appropriate to measure the output of providing the property for Middlesbrough, in addition to the overall portfolio performance measures. Whilst there are no industry identified benchmarks for doing this, we will adopt the following approach:

- Number of businesses supported, drilling down on job creation with a measure of FTE positions over a quarter period.
- Access to business support services and growth in business turnover.
- Number of businesses managed on to 'grow on' space as a proxy for business maturity; and
- An investment calculation which states the opportunity cost to Middlesbrough for the economic benefit as described above.
- FTE positions, floorspace and unit numbers created through regeneration schemes; and
- Private sector investment leveraged.

# Estate Strategy

## Measuring Performance

### Community Enterprise

Appropriate benchmarks can include:

- Target to balance the revenue / cost for property provision.
- Number of hours/ days of community supported use per quarter.
- Opportunity cost for the provision of property for this support use – this would also demonstrate the 'investment' made by MBC; and
- Quantification of saving to MBC through third party provision.

### Capital Receipts Programme

In addition to the assessment of the principal measure of receipts received per quarter, the following should also be used as measures within any de-risking action:

- Value enhancement achieved.
- Floor space / units number achieved through the planning process; and
- Gross development value of the schemes to be created.

### Summary

Through the adoption of sound asset management principles and robust data capture, the Council will be in a position to drive additional value from its estate and take informed investment decisions where property is not meeting minimum criteria.

Whilst there are a number of industry benchmarks which can be used by the Council to compare performance, it will be in a position to set targets which are deliverable, achievable and most important of all, bespoke.