

Property Asset Review

Final Decision-Maker	Policy and Resources Committee
Lead Director and Report Author	Mark Green, Director of Finance and Business Improvement
Lead Officer	Deborah Turner, Interim Strategic Property Consultant
Classification	Public
Wards affected	All

Executive Summary

This report summarises the results of an independent review of the Council's property portfolio. The review makes recommendations about properties in the portfolio where it is considered appropriate to dispose of them, redevelop, carry out more estates work or carry out other management actions. The report describes the next steps in carrying forward the work arising from the review.

This report makes the following recommendations to this Committee:

1. That the completion of the Property Asset Review is noted.
2. That officers carry out the next steps identified in paragraphs 1.24 to 1.27 of this report.

Timetable

Meeting	Date
Policy and Resources Committee	23 January 2019

Property Asset Review

1. INTRODUCTION AND BACKGROUND

Purpose of Review

- 1.1 Maidstone Borough Council holds nearly 300 separate property assets, with a balance sheet valuation as at March 2018 of £48 million. This includes property assets used to deliver council services, community assets such as parks and open spaces, and commercial property investment assets. The financial return generated from commercial property investments amounts to around £1.8 million per annum. £1.8 million represents less than 5% of the Council's £40 million revenue budget, so it is recognised that there is scope for increased property investment without exposing the Council to undue risk.
- 1.2 Given the scale and value of these property holdings, it is appropriate, in the interests of good financial stewardship, for the Council to ensure that it is getting good value from the portfolio, both in financial terms, and in terms of how it helps the Council serve the community. Accordingly, a Property Asset Review was agreed by Policy and Resources Committee at its meeting on March 2018 as one of the projects to be funded from the proceeds of the Business Rates Retention Pilot. The purpose of the review was described as being to:
 - ensure that the Council's property assets can respond to the Council's corporate priorities
 - identify opportunities for the Council to optimise income or capital from Council owned property
 - ensure that all Council services are provided through facilities which are fit for purpose and utilised effectively.

Relevant corporate priorities include the following.

Strategic Priority – Embracing Growth and Enabling Infrastructure

- 1.3 This strategic priority, one of the four key priorities agreed by Council in December 2018 as part of the new Strategic Plan, recognises that there is a need for new housing in the borough, not only because of government targets but also because of the pressures on existing housing that can be observed locally. Meeting housing need includes the provision of affordable housing.
- 1.4 By adopting this strategic priority including the outcome "housing need is met including affordable housing", the Council recognises its role in meeting housing need. As well as facilitating the provision of housing by other agencies, it also has the opportunity to deliver housing directly. Specific policies for the provision of social housing through the Housing Delivery Partnership and private rented housing through Maidstone Property Holdings Limited have been adopted by the Council and are detailed below.

- 1.5 A key constraint in the delivery of new housing is the price and scarcity of land. The Council's property portfolio offers an opportunity to provide land for new housing with no net cash outlay.

Strategic Priority – Homes and Communities

- 1.6 This priority also recognises the importance of providing good quality housing, in particular to address homelessness and rough sleeping.

Strategic Priority – Safe, Clean and Green

- 1.7 This priority commits the Council to providing an environmentally attractive and sustainable Borough, with access for everyone to high quality parks and green spaces. The Council's ownership of parks, open spaces and land more generally provides an enormous range of opportunities for it to deliver this priority.

Strategic Priority – A Thriving Place

- 1.8 This priority seeks to promote Maidstone as a place offering both high quality leisure and culture and a good environment in which to do business. The Council already delivers many leisure and cultural services from its properties. Through creative use of its property, it can also stimulate the economy and bring in new businesses, as has been demonstrated by the Business Terrace and potentially through the Innovation Centre on the Kent Medical Campus.

Housing Delivery Partnership

- 1.9 The Housing Delivery Partnership supports the two strategic priorities, Embracing Growth and Enabling Infrastructure, and Homes and Communities. At its meeting on 13 November 2018, the Communities Housing and Environment Committee endorsed a plan to set up a Housing Delivery Partnership with a registered social housing provider. This would involve both partners committing to delivering housing as part of the S106 affordable housing market. This would be supported by new Affordable Housing Supplementary Planning Guidance.

Housing Development and Regeneration Investment Plan

- 1.10 The objectives of this plan are twofold – to develop housing ourselves and therefore address directly the need for new homes in the borough; and to generate long term revenue returns to the Council through developing homes for market rent through Maidstone Property Holdings Limited. Developments are currently under way at Union Street and Brunswick Street. Further expenditure may include acquisition of land to enable either future Council developments or larger scale projects delivered in conjunction with partners, whether from the private sector or from the social housing sector. A property acquisition that forms part of the Housing Development and Regeneration Investment Plan is subject to a Part B report elsewhere on this evening's agenda.

Commercial Investment Strategy

- 1.11 Other than service assets, the Council already holds a substantial commercial investment property portfolio which generates an income of around £1.8 million per annum. It has added to this portfolio in recent years through the acquisition of further commercial property on the Parkwood Industrial Estate. Our capital programme assumes that we will continue to expand the portfolio, subject to opportunities arising that generate the required rate of return and an allocation of £12.5 million has been set aside for this purpose.
- 1.12 Where properties in our existing portfolio are not generating a commercial rate of return, we need to consider whether they should be retained, or whether with further investment we can achieve a suitable return.

Individual Service Strategies and Plans

- 1.13 Individual Services around the Council have adopted strategies and plans that rely on our property assets, eg Parks and Open Spaces 10 Year Strategic Plan, Temporary Accommodation Strategy. We need to ensure that the assets in our portfolio are fit for the services' purpose and utilised effectively.
- 1.14 In summary, the Property Asset Review was intended to highlight the opportunities offered by our existing portfolio to support the Strategies and Plans outlined above.

How the Property Asset Review has been carried out

- 1.15 Following a competitive selection process, the Council appointed property consultants Gen2 to carry out the Property Asset Review. The review has now been completed.
- 1.16 The Asset Review examined all significant property holdings across the Council's portfolio. In each case, the following issues were considered:
- How the asset is currently used and why it is held;
 - Opportunities for higher value redevelopment and/or increased revenue generation
 - How the asset could be used or managed more effectively.

Not all Council properties were considered as part of the review. The Council owns a number of small areas of land, typically road verges. Such sites were excluded both because they offer limited opportunities and it would not have been cost-effective to investigate them in detail.

- 1.17 Gen 2 made recommendations about each property under the following broad headings:
- Hold
 - More estates work needed to maximise value
 - Management intervention required
 - Dispose
 - Develop

It should be noted that Gen2's recommendations are those of independent consultants. It is for the Council to decide, in the light of its own corporate priorities, whether to adopt these recommendations.

Summary of recommendations

1.18 An overall summary of Gen2's findings by category is set out below:

Category	Number of properties
Hold	153
More estates work needed to maximise value	61
Management intervention required	46
Develop	23
Dispose	10
Total	293

Further details for each category are as follows.

1.19 Hold

The majority of properties fit into the 'hold' category. These generally represented properties that are used successfully to provide a Council service, or investment properties which are generating an appropriate financial return for the Council. Properties were also included in this category if they were unsuitable for further development for other reasons. These included where the assets were of community importance and it was not feasible to relocate them, or where there were limitations from a planning perspective due to the nature of the site. No specific action needs to be taken in relation to these properties. However, the information gathered by Gen2 will be retained and updated as appropriate.

1.20 More estates work needed to maximise value

Based on Gen2's analysis of the Council's property records, they have identified a number of properties where further value may be captured. Typically this would be because rent reviews have not been undertaken or leases need to be renewed. It should be noted that, for example, a rent review may simply not have been carried out because it was judged that the outcome would not in fact have generated any financial benefit. Nevertheless, Gen2's recommendations merit further work to confirm the position, and to follow up if necessary with the necessary estate management measures.

1.21 Management intervention required

The properties that fell into this category were those where Gen2 believed there were opportunities from more active management of the site. The sites in question vary widely in use and character, but typically they were those where the site is under-utilised and greater community benefit could be derived from active management, in some cases with minimal further financial investment. Discussions with ward members arising from the

Property Asset Review have identified further opportunities, where sites may have been neglected in the past, but there is real potential for using them to achieve better outcomes for the community.

1.22 Develop

These sites were those where Gen2 believed there was a development opportunity from which the Council could benefit in the future. Gen2 recognised that the sites' occupational status or place in the portfolio may rule out immediate sale or development. In some cases, capacity from other sites would be required in order to enable development, for example by providing alternative public space. The recommendations acknowledged that further investigation would be required about the feasibility of individual sites and that development would be contingent on other Council policies and on the planning process.

1.23 Dispose

Gen2 included in this category those sites which would have fallen in the 'develop' category, but where the size of the site or the size of the development that it could reasonably accommodate was so small that it would not be worthwhile progressing the opportunity. Gen2 have suggested that in these cases there may be an opportunity sell several properties as a single lot or entering a joint venture between MBC and a developer or contractor.

Both development and disposal have the potential to generate surplus resources for reinvestment elsewhere in the Council.

Next Steps

1.24 The Property team have a programme of work to address the recommendations about more estates work and management intervention. This is an extensive programme of work and additional resource will be required to deliver it. However, it is likely to yield benefits in increased income and improved assets. Direction and/or decisions will be sought from Policy and Resources Committee as appropriate.

1.25 In the case of the properties identified under the 'develop' and 'dispose' categories, there are a number of issues that need to be considered before taking the recommendations any further. Individual sites need to be considered in light of the following.

- Existing use - this may provide benefits to the community which cannot be replicated elsewhere.
- Existing Council policies - the Council has existing policies, for example in relation to the provision of play areas, that are relevant, and may constrain or prevent development or disposal.
- Resident and councillor views - the steps that are being taken to ascertain councillors' views are described in further detail in section 5. This is a major consideration and will be reflected fully before taking forward specific proposals.

- Planning policy - an assessment of any development in relation to planning policies will be required. This will include whether there is already any existing planning history to the site.
- Infrastructure and role of other statutory bodies – we need to consider whether there are any infrastructure requirements, such as access, and the views of other statutory bodies that would be affected by any proposals.
- Strategic fit - Disposal or development should serve the strategic objectives set out above.
- Viability - A disposal or development would need to be financially viable, taking into account upfront costs as well as the costs of delivery.

1.26 This work has commenced. It will be carried out in conjunction with other relevant work programmes, in particular the work of the Regeneration and Economic Development team, which is responsible for carrying out the Housing Development and Regeneration Investment Plan. We will report back to Policy and Resources Committee with any recommendation to proceed further with proposals for development and/or disposal. At this stage it is too early to propose any sites for future development or disposal.

1.27 Gen2's work has allowed a large amount of information about the Council's property portfolio to be assembled. Gen2 have handed the database that they have created back to the Council. It will be used to update and improve our records, and will provide a valuable resource for the future. In particular, it is proposed to use the database to publish a Council Asset Register on our website. This will provide information about individual assets and will be updated regularly.

2. AVAILABLE OPTIONS

2.1 Option 1

Take no further action.

2.2 Option 2

Carry out the next steps as identified above.

3. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

3.1 The preferred option is to carry out the next steps as identified above. In the interests of good stewardship, it is appropriate for the Council to obtain the best possible financial and community value from its property portfolio.

4. RISK

- 4.1 There are a range of risks associated with adopting some or all of the recommendations in the Property Asset Review – including political, financial and operational risks. These need to be balanced against the risks (opportunity costs) of doing nothing.
 - 4.2 Risk assessments will be carried out in relation to all specific projects arising from the review, in keeping with the Council’s usual policy.
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5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 5.1 An earlier version of this report was submitted to Policy and Resources Committee on 21 November 2018. Members decided that the report should be taken in public, rather than in private. This report is accordingly public, but, following legal advice, it excludes commercially sensitive information about individual properties.
 - 5.2 In order to ensure that all members were appraised of information about the Property Asset Review, a drop-in session was held on 9 January so that they could review details of Council-owned assets in their wards and adjoining areas. It was recognised that members will often have detailed knowledge about the history of particular properties and how they are used. The drop-in session was well-attended, and was helpful in particular in identifying further potential opportunities for the creative use of council property.
 - 5.3 The drop-in session was complemented by an overall briefing on the Property Asset Review in the evening of 9 January.
 - 5.4 Member engagement has confirmed the value that members place on individual assets in their wards and neighbouring areas, particularly parks and open spaces. Members provided much invaluable contextual information about these assets which will be fully reflected in the next steps.
 - 5.5 Consultation with all relevant stakeholders will take place in relation to any specific recommendations that are taken forward, in addition to the public engagement that would take place in any case with respect to any site identified for change of use, in accordance with the Council’s normal practice.
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6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

- 6.1 The next steps are described in paragraphs 1.24 to 1.27 above. It is envisaged that a further report will be brought to the Committee later in 2019.
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7. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	The Property Asset Review will help the Council deliver its corporate priorities by giving a clearer understanding of its existing property assets.	Section 151 Officer & Finance Team
Risk Management	This has been addressed in section 4 of the report.	Section 151 Officer & Finance Team
Financial	The availability of resources to address specific projects arising from the Property Asset Review will be addressed as part of the budget process.	Section 151 Officer & Finance Team
Staffing	Strategic property management is handled by the existing in-house team. Staffing requirements arising from any recommendations of the Property Asset Review will be identified on a project by project basis.	Section 151 Officer & Finance Team
Legal	<p>Section 151 of the Local Government Act 1972 requires councils to put in place proper processes for the management of their finances, including their assets. The Property Asset Review demonstrates the Council's commitment to fulfilling its duties under the Act.</p> <p>The Local Government Act 1972, section 111(1) empowers a local authority to do any thing (whether or not involving the expenditure, borrowing or lending of money or the acquisition or disposal of any property or rights) which is calculated to facilitate, or is conducive or incidental to, the discharge of any of their functions. This enables the Council as part of its asset management strategy to</p>	[Team Leader (Corporate Governance), MKLS]

	<p>acquire and/or dispose of assets meeting relevant statutory requirements.</p> <p>In particular, section 120(1)(2) of the 1972 Act enables the Council to acquire land to be used for the benefit, improvement or development of their area; or for the purpose of discharging the Council's functions.</p> <p>Section 123(2) of the 1972 Act enables the Council to dispose of land or property for the best consideration reasonably obtainable, otherwise the consent of the Secretary of State will be required subject to certain conditions.</p> <p>Acting on the recommendations is within the Council's powers as set out in the above statutory provisions.</p> <p>As this is a public report, details of individual property assets are not shown here. Information that outlines any limitations regarding any land/property and/or the Council's future strategy regarding a site may compromise the Council's ability to negotiate a favourable position thereby compromising the ability of the Council to achieve the best consideration in monetary terms or otherwise.</p> <p>Part 1 of Schedule 12A of the Local Government Act 1972 enables the Council to treat information as exempt from publication.</p> <p>Legal implications arising from any recommendations of the Property Asset Review will be identified on a project by project basis.</p>	
<p>Equalities</p>	<p>Dependant on the recommendations agreed, the equalities impact will be considered in relation to specific projects.</p>	<p>Equalities and Corporate Policy Officer</p>

Crime and Disorder	Not applicable.	Section 151 Officer & Finance Team
Procurement	Procurement implications arising from any recommendations of the Property Asset Review will be identified on a project by project basis.	Section 151 Officer & Finance Team

8. REPORT APPENDICES

The following documents are to be published with this report and form part of the report:

None.

9. BACKGROUND PAPERS

The full Gen2 Property Asset Review report can be made available to members of Policy and Resources Committee electronically on request. This is because the report is commercially sensitive and too long to attach to an agenda.