

PART A

Report to: Cabinet
Date of meeting: 9 March 2015
Report of: Head of Regeneration and Development
Title: Property Review

1.0 SUMMARY

- 1.1 In 2014, Watford Borough Council undertook to commission a Strategic Review of its property portfolio and property function. The key drivers for this review were the need to:
- Secure a revenue stream to compensate for the loss of government funding.
 - Secure funding to re-invest in the town and improve the quality of the borough.
 - Ensure that the service is run as efficiently and effectively as possible.
- 1.2 This report deals with the recommendations from Lambert Smith Hampton (LSH) to transform how the Council's property portfolio and investment assets are managed.

2.0 RECOMMENDATIONS

- 2.1 Cabinet is asked to approve the establishment of a Property Investment Board, chaired by the Portfolio Holder with the terms of reference set out in Section 3.5 below
- 2.2 Cabinet is asked to comment on the wider LSH recommendations and agree the direction of travel and note that further reports will be made to Cabinet, Scrutiny and the Major Projects Board as appropriate as implementation plans are developed.

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Report approved by: Head of Regeneration and Development

3.0 DETAILED PROPOSAL

Key LSH Conclusions

3.1 Property Investment Board

LSH's analysis is as follows:

'In reviewing the Investment portfolio it is important to consider it as a financial asset that produces a revenue benefit to the Council, in essence the same as gilts and bonds. A key difference can be that investment property can re-enforce wider messages and initiatives not least as a leverage to influence investment by others, providing community and employment benefits, etc. With this in mind our review identifies some assets which provide this benefit, notably Intu and Charter Place, along with Watford Business Park (not included in this review) whereas many others provide little if any benefit and therefore can be considered purely from a financial perspective i.e. their performance producing net return on the investment.

As part of our remit we were requested to demonstrate how the income from the investment portfolio could grow by 5% per annum for the next three years.

From the detailed analysis we are undertaking as part of the investment portfolio the current income is assessed as £4.565m per annum. To be added to this is the WBP income of approximately £0.65m and £0.60m for the town centre car parks. The total current income to the Council is estimated at £5.814m per annum.'

3.2 LSH also draw attention to the key outcomes the Council should expect from property investment, namely:

- where there is new planned investment it should support wider regeneration initiatives and deliver other community benefits;
- enabling an improved balance of uses in the portfolio with less emphasis on retail
- providing improved returns and therefore revenue to the Council
- reducing the workload on the property department.

3.3 'In managing Investment Properties it needs to be recognised they are held to produce an income. Therefore, as with financial instruments, special provisions are required to enable rapid decision making, this might require changes to Standing Orders and authorisation requirements.

- i. Non-tradable assets should be removed from the portfolio and placed in the more appropriate proposed Community Assets Portfolio.
- ii. In managing Investment Properties it needs to be recognised they are held to produce an income. Therefore, as with financial instruments, special provisions are required to enable rapid decision making, this

might require changes to Standing Orders and authorisation requirements.

- iii. The portfolio should be ring fenced so as to protect the income it can generate.
- iv. Specialist expertise is required to manage the portfolio and this should be sought as soon as practicable.

3.4 As an option, to satisfy the above, the Council should consider establishing a Management Company the sole responsibility being to manage the investment portfolio with the principle remit to maximise the net receipts to the Council.

- a. The assets would not be transferred, unlike in establishing an Investment Company, but the decision making process is. This would avoid costs of transferring the assets which would be substantial.
- b. The Council would know the best resource is managing the portfolio.
- c. Costs can be readily accounted for and periodically competitively tendered.
- d. The Council's interests would be fully protected as it will be a wholly owned company. '

The LSH Main Report dated 9 October 2014 and a Conclusions & Recommendations summary are attached as Appendices.

3.5 **Proposal for Cabinet Approval**

This report proposes the establishment of a Property Investment Board in response to the LSH property review instead of the wholly owned management company recommended. This would be a first, measured step in providing the technical structure that is needed to make investment decisions but without the initial cost and governance issues establishing a company would create. The PIB can then be a testing ground to see whether moving to a more formal corporate body is needed. The role of the PIB would also be to advise on potential development sites which could include operational property.

3.6 Having reviewed the benefits of a Management Company it is thought at this stage a Property Investment Board could derive many similar benefits. Whilst a Management Company may give a degree of flexibility to raise money on the capital markets and apply for certain government grants that a local authority can't, the council can use in the medium term its development partners and vehicles such as the LABV to address those matters if needed. Should legislation change in the future making a formal corporate body more attractive or if the PIB isn't functioning efficiently then change could be adopted at a later stage if this was the view.

3.7 It is unclear from the LSH proposal how the Management Company would make any money if the intention is not to transfer any physical assets to it. The presumption must be that it makes its money by charging the Council to manage the portfolio on its behalf. This would seem to be a more costly way of operating than using an in house board with procured specialist expertise. It is also unclear on what basis the Management Company with no assets of its own would be able to raise money on the capital markets unless the Council acted as guarantor. The only potential benefit

would be if the intention was to market the company to other commercial property owners to manage their property as well.

3.8 **Terms of Reference**

Membership

The PIB would be chaired by the Property Portfolio Holder and who will undertake formal decisions in accordance with the Council's delegation scheme for executive functions (for example including advanced notice in the Forward Plan and scrutiny/call in procedures. Members will also be able to review progress through the Major Projects Board). The PIB will be advised by external investment/technical expertise. In attendance will also be the Portfolio Holder for Resources, the Head of Regeneration & Development, the Section Head for Property, the Head of Democracy & Governance, the Director of Finance (or her representative) and the Managing Director.

- 3.9 It is proposed initially that LSH will attend as the external party for the council providing private sector expertise. LSH are well placed having reviewed the council's investment and occupational assets. This has been discussed with LSH and if progressed they would assign one of their directors to the PIB so that there is continuity and would call upon specific expertise as required depending on the projects and opportunities to be discussed. It is estimated that a cost of £12,500 pa is set aside to cover LSH servicing costs of the PIB which is based on reviewing papers, attendance at quarterly meetings and general ad hoc advice. This is based on the rates set out in their tender return from the Government's GPS panel relating to work they undertook on the Property Review. It is proposed that the initial appointment be for a period of 3 years.
- 3.10 Should LSH carry out any additional work outside the above scope such as disposals, acquisitions, building surveying or lease advisory work discounts to their standard fees would apply. Should any additional work of this nature be required by LSH or other consultants this would be looked at in the context of that specific project and form part of the approval process of those individual projects or tasks.
- 3.11 The issue of continued day to day management including rent collection could be incorporated into LSH role however with the proposed change in the Investment Portfolio and it becoming less management intensive it is thought that in the long term this can be managed in house in the medium term.
- 3.12 **Role**

The role of the PIB is to focus on the Council's Investment Portfolio (page 32 LSH report refers) in order to:

- a. develop an overall Investment Portfolio Management Strategy
- b. fully appraise the Investment Portfolio to build on the strengths of the existing Portfolio and tackle the weaknesses (LSH report page 30 refers);
- c. determine the risk appetite for diversifying investment and maximising investment returns
- d. set a target for growth investment revenue returns and take the

- e. necessary action to achieve the target review business cases for disposals, authorising disposal and disposal methodology, and enabling a rebalancing of uses away from a reliance on retail
- f. determine the corresponding Property financial strategy such as policy on rent reviews, yields, capital values and the cost of holding assets
- g. authorise the acquisition of land interests, assets and make investment decisions taking account of the overall Investment Portfolio Management Strategy
- h. agree a reinvestment programme, determining the level of recycling of receipts into investment yielding assets or to support the Council's capital or revenue programme
- i. to manage risk through recommending holding a mixture of assets (pages 37 – 39 LSH report refers and LSH report Appendix 4, private agenda)
- j. to make decisions on development portfolio, operational portfolio and community assets business cases referred to it.

3.13 **Meetings**

The Board will meet quarterly although in the early set stages more frequent meetings will be required, ad hoc meetings or teleconferences are also envisaged to take place so that the Property Investment Board can respond quickly to opportunities that arise. Papers and Agendas will be produced by WBC for review by Board members.

- 3.14 It is recommended that the current delegations are reviewed and that the Portfolio Holder is given complete delegated authority to deal with any matters within the remit of the PIB. It is also recommended that the Regeneration and Property Section Head also be given delegated authority up to the value of £3 million to deal with acquisitions/disposals/ lease renewals, grants, surrenders, easements and other property related issues. Currently the Council has set £50,000 as the limit above which a matter becomes a key decision which has to go on the Executive Decision Notice 28 days in advance of the decision being taken. Also at present any decision of a Portfolio Holder which involves expenditure of £10,000 or more is subject to call in. It is recommended that Council be asked to review these limits if the intention is to be able to respond quickly to the market. This can be done for this area of functions only if necessary. Altering these delegated limits would require a review of the Council's scheme of delegation and would therefore be subject to a later decision.

3.15 **Community Assets**

The LSH report secondly highlights the complexity of current arrangements for managing community assets and recommends that they be managed through the relevant Service Head and separated from operational assets. This would enable their community value to be recognised and integrated with community services.

- 3.16 Community Assets can be divided into a number of separate headings. Each requires a slightly different future plan.

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3.18 **Play and Open space**

This includes playing fields, strategic sports sites, Woodside and adventure play grounds. Responsibility for the management and strategic planning of these assets is currently split between Corporate Strategy & Client Services and Community and Customer Services.

3.19 LSH also evaluate that by grouping these community assets together, there may be scope to enhance the efficiency of their management through consideration of a wider Management Trust and that this could be explored as part of the Leisure Centre contract tender process in 2018 (LSH Main Report pages 16-18).

3.20 It is therefore recommended that some soft market testing is undertaken to ascertain whether there is an appetite for the establishment of a sports trust or management by a commercial organisation.

3.21 Reference needs to be made to the sports facilities strategy (page 5, LSH Conclusions & Recommendations) and the Play Review.

3.22 **Community Centres**

Management of these assets is complex and there is no one template/format for their management and day to day running. Equally there is not strategic overview about the appropriate level of service or required number of community centres across the town.

3.23 LSH recommend (page 28 LSH Main Report and page 5 LSH Conclusions & Recommendations) a review of the community centres to determine their future role, number, location and services provided. This work has started.

3.24 A number of the community centres are emerging as requiring early work to be undertaken. These are:

Centre Point
The Orbital
The Brow*
15 Harwoods Road

* see below

3.25 The review will prioritise work on these, starting with a community consultation.

3.26 The objective would be for them to be managed by Corporate Strategy & Client Services. CS&CS would take the lead role for strategic planning and contract management. Acting as the single point of contact and matrix managing structural, contractual and property issues.

3.27 **Other Community Assets**

There are other community uses which take place in council owned buildings such as The Brow, The Palace Scenery Store, Pump House and Le Marie Centre.

3.28 It will be necessary to review the list of these assets and decide on a case by case basis where they best fit in the review.

3.29 **Hostels and associated properties**

A review of hostel accommodation and other similar assets such as buildings occupied by the New Hope Trust and Women's Refuge is currently on going. This has been prioritised as a result of the growing numbers of homeless within the Borough. It is proposed that a workshop is set up so needs and efficiency can be determined which could involve neighbouring boroughs.

3.30 This work is part of the delivery of the Housing Strategy.

3.31 An options report will be presented to Cabinet in due course.

3.32 **Properties subject to the Commissioning Framework**

The management of these assets can be time consuming and politically sensitive, often requiring non-commercial solutions outside of the Property management arena. It is proposed that the community assets (such as third sector let properties and cultural facilities) are managed through Corporate Strategy & Client Services in line with the lead role of that service for the commissioning third sector delivery (page 5, LSH Conclusions & Recommendations).

3.33 The Commissioning Framework is currently under review. However, the scope of this work currently focuses on funding for these organisations.

3.34 It is recommended that the scope of this work is widened to include consideration of the property implications of third sector provision.

3.35 This work stream would include properties such as:

St Marys Churchyard (CAB, Signpost, Relate)
The Palace
Shopmobility

3.36 **Operational Portfolio**

Three further major recommendations are featured in the LSH report:

Firstly to fully review the use of the Town Hall with a view to intensifying its use, freeing up space in the Annexe for alternative use. The terrapin temporary structure currently housing meeting rooms and the canteen space would also have its future space utilisation reconsidered (page 20 onwards, Main LSH report and pages 6-7 LSH Conclusions & Recommendations).

This review work is underway.

Secondly LSH recommend a review of the best use of the Council's hostel and other temporary accommodation (page 27 Main LSH Report and page 6 LSH Conclusions & Recommendations). This work is also underway.

Thirdly In understanding the running costs of operational property limited information was available to review at the time of the Property Review. Part of this exercise needs to be carried out in further detail to assess running costs for benchmarking purposes which will inform future decisions.

3.37 **Development Portfolio (pages 41-44 Main LSH report)**

Current landholdings such as Longspring car park, Croxley View, Liverpool Road garage court, Lower Derby road skateboard park and garage sites are identified as development opportunities. The skateboard park could be re-provided at a more appropriate location. These opportunities need appropriate business cases drawn up, appropriate consultation and proposals for consideration to be made to the Mayor and Portfolio Holder. This work is underway.

3.38 **Property Function**

Finally LSH have considered the most effective model for delivering the Council's property function.(page 45 onwards Main LSH report). Having considered the options, LSH recommend (page 21 LSH Conclusions & Recommendations), outsourcing much of the day to day and specialist requirements and retaining a small core property client team to undertake the strategic and contract management role.

3.39 Immediate work for the property team over the next six to twelve months include updating the Atrium Property Management system which will include the registration of unregistered land and updating its property records which was identified as needing attention in the Review. Another element of the work identified is the disposal of the low value high maintenance properties which are seen as inefficient and presents an opportunity to reinvest the proceeds in better performing assets.

3.40 The emerging strategy for the Council's investment properties is likely to require less resource going forward with assets such as Watford Business Park being outsourced to Greenhills and the management of Charter Place and the Market being taken forward by others and requiring much less of a direct input by the property team.

3.41 A change management plan will be developed to implement this recommendation later this year.

3.42 **Financial Implications**

The costs of securing external technical advice to the Property Investment Board are being provided for within the 2015/16 budget process.

3.43 A budget of around £12,500 per annum is anticipated to be required to service the Property Review Board by a private sector partner.

3.44 The anticipated receipts from disposals are likely to be reinvested in better performing assets and the Property Board recommending reinvestment subject to approving an appropriate business case. The business case will also review costs associated with disposals and acquisitions.

3.45 **Legal Implications**

Under the Mayor and Cabinet model of governance that the Council operates the property function is an Executive Function. Executive decisions can only be taken by either the Mayor, an individual portfolio holder, cabinet, or an officer. It is not legally possible to delegate decision making to an internal board made up of members and officers. Therefore it is necessary that the formal decision making power rests with the chairman of the board who is the portfolio holder for the function.

3.50 As stated above it is recommended that the current levels of delegation are reviewed to reflect the new approach and that also the key decision and call in limits also be reviewed. This would enable decisions to be made promptly and enable the Council to react to market opportunities without having to comply with the urgency procedures available in the constitution.

3.51 It is also recommended that LSH be procured via the CCS Framework for property services as our preferred advisor to the Board and to assist with any future acquisitions or disposals.

3.52 **Comments from Overview and Scrutiny Task Group**

The Property review has been considered by the O&S Task Group as it has progressed. Councillor Bell has made the following comments on this report on behalf of the Group:

I am sure we can take a more studied look at the idea of a 'Property Board' in the near future.

We broadly support the idea but of course would want clear criteria laid down to scrutinise and monitor the portfolio-holder's decisions.

I accept that the whole point of the Board is to be able to be more proactive in the property market and, therefore, it would enable action to be taken quicker and that the £10,000 and £50,000 limits and Call-In procedure would need to be reviewed.

I can see the negative points about a management Company and can see the point of an 'In-house' setup.

The idea of Community assets being 'looked after' separately appeals but again the detail needs to be looked at.

We have already agreed that the hostels should be upgraded and the future of some named sites in the report are for future discussion.

4.0 IMPLICATIONS

4.1 Financial

4.1.1 The Shared Director of Finance comments that the financial implications are included in the report.

4.2 Legal Issues (Monitoring Officer)

4.2.1 The Legal & Democratic Services Section Head comments that the legal implications are contained within the body of the report.

4.3 Equalities

4.3.1 There are no equalities issues arising as a result of this report.

4.4 Potential Risks

| Potential Risk | Likelihood | Impact | Overall score |
|---|------------|--------|---------------|
| Economic slowdown in market making transactions difficult to complete | 2 | 2 | 4 |
| Lack of suitable property stock to reinvest in that generate a suitable yield | 3 | 2 | 6 |
| Funds released from property disposals are used in other areas of council spending rather than reinvesting in property | 2 | 4 | 8 |
| Risk profile of new investments is likely to be higher which may make income more volatile | 2 | 3 | 6 |
| | | | |
| | | | |
| Those risks scoring 9 or above are considered significant and will need specific attention in project management. They will also be added to the service's Risk Register. | | | |

4.5 Staffing

4.5.1 The proposed changes to the make up of the property portfolio are likely to result in less management time being required to manage it and changes to the property team in the future.

4.6 Accommodation

4.6.1 No implication

4.7 Community Safety

4.7.1 No implication

4.8 Sustainability

4.8.1 Sustainability will be an assessment criteria when both disposing of and acquiring property which will improve the carbon footprint of the council's investment.

Appendices

Appendix A – Property Report – PART B

Background Papers

No papers were used in the preparation of this report

File Reference

None