Committee Name: Cabinet

Committee Date: 06/03/2024

Report title: Assets (Non-Housing) Five Year Plan

Portfolio: Councillor Kendrick, Cabinet member for resources

Report from: Interim Executive Director of Major Projects

Wards: All Wards

OPEN PUBLIC ITEM

KEY DECISION

Purpose

To consider the Investment Portfolio Strategy & Implementation plan and endorse the revised asset management action plan appended to this report.

Recommendation:

To:

(1) Endorse the revised asset management action plan appended to this report;

(2) Endorse the governance arrangements for management of the non-housing property portfolio;

(3) Delegate the disposal of the assets listed within the exempt appendix to the Executive Director of Development & City Services in consultation with the S151 officer and cabinet member for resources;

(4) Agree to the use of the Commercial Property Reserve to fund condition surveys & rent reviews relating to assets listed within the exempt appendix; and

(5) To note that there will be a report to cabinet in 12 months time to report on progress and consider additional disposals in later years of the plan.

Policy Framework

The Council has five corporate aims, which are:

- People live independently and well in a diverse and safe city.

- Norwich is a sustainable and healthy city.
- Norwich has the infrastructure and housing it needs to be a successful city.
- The city has an inclusive economy in which residents have equal opportunity to flourish.
- Norwich City Council is in good shape to serve the city.

This report meets the aim of Norwich City Council being in a good shape to serve the city. The proactive management of the Council's investment portfolio is essential to ensure that it delivers a viable and sustainable return to the council in order to help deliver front line services.

Report Details

Background

1. The council's Strategic Asset Management Framework (SAMF) was adopted in March 2022. This sets out the asset management policy, strategy and action plan for managing the non-housing property portfolio. Substantial progress has been made over the past two years in taking a more proactive approach to the management of the council's property assets.

2. Key achievements since the adoption of the SAMF have been:

   a. services have been insourced with staff transferring in from NPSN with successful continuing service provision;
   b. there has been a full restructure of the team managing the non-housing portfolio, leading to a more robust service structure to manage the portfolio;
   c. the Norwich Airport Industrial Estate has been sold for £35.75m;
   d. a full audit of compliance information and responsibilities ensuring there is a clear record and audit of compliance activities and actions across the portfolio reporting through to the compliance board;
   e. income targets for investment properties have exceeded targets;
   f. more proactive management of commercial property debt in line with performance standards;
   g. improved condition and valuation data on a large number of high priority assets leading to asset reviews and decisions to dispose of a number of assets;
   h. sale of 163 Cambridge Science Park for £12.17m;
   i. implementation of a new IT system to hold non-housing estate management data.

3. Significant progress has been made to start to build an accurate view of our asset portfolio, however there remains a need to improve data and have an updated action plan particularly around the income earning portfolio. A business case was approved by the Future Shape Norwich (FSN) Board in summer 2023 with the aim to achieve an ongoing cycle of data gathering, decisions and action so that the portfolio is effectively challenged, proactively managed and data on our assets is kept accurate and up to date. The objectives of this piece of work were to develop a 5-year plan to inform the Medium Term Financial Plan (MTFP), put resources in place to enable the 5 year plan to be taken forward as part of business as usual, put governance arrangements in place to allow decision making and reporting of progress against the plan.

4. In order to take this forward Jones Lang LaSalle (JLL) were appointed to undertake a strategic review of the council's income earning assets and to assist in developing an implementation plan covering the next 5 years to inform and align with the MTFP. This review excludes the HRA shops. JLL's work forms the basis of a new action plan to inform estate management over the next five years.

Summary of JLL Findings

5. The property investment portfolio is characterised by its capital distribution. It can be regarded as having a large head and a long tail caused through an imbalance of capital deployed. The weighting of the portfolio is such that 80% of the capital is held in 23% (17) assets (large head), with 45% (32) assets accounting for just 5.9% (long tail) of the invested capital. The revenue generated from the portfolio is broadly aligned to the capital distribution.

6. This imbalance leads to inefficiency and poor investment performance. Management time and cost is disproportionately spent on the smaller and predominantly weaker assets. This further accentuates poor relative portfolio performance through lower capital and rental growth, the long tail forming a drag on investment returns. Smaller assets also provide a low relative contribution to overall portfolio performance.

7. The current property investment portfolio comprises 72 assets (using the smallest denominator). These assets have a book value of £87m producing an annual income of c£5.6m. The portfolio has around 170 tenants.

8. The portfolio holds a high level of liabilities for both repairs, maintenance, and future sustainability requirements. This is accentuated by a large holding of listed historical buildings accounting for 36% of the portfolio by asset number. Total repairing liabilities from the existing portfolio are estimated to be more than £35m.

9. JLL have identified a need for a more effective deployment of capital to support longer term revenue generation and growth. This can be achieved by streamlining the investment portfolio through an orderly disposal of under-performing property assets, focussed on reducing the long tail.

10. JLL have suggested that capital receipts could be used as a source of funding for future investment in either existing assets or new modern environmentally sustainable property investments, subject to them generating an appropriate return and being in line with the capital financing regulations. However, the councils general approach would be to reduce its debt or generate treasury returns with agreed property investments funded in accordance with the councils commercial strategy.

11. Through a systematic and orderly disposal and re-investment programme the council can reduce its exposure to capital liabilities through a combination of selling properties with inherent liabilities and investing in either existing buildings held as long-term holdings or modern/new investments.

12. For the residual portfolio, strategic capital investment will add longer term value and support future economic re-generation within the city. To implement this, individual asset reviews and business plans with appropriate planned maintenance programmes should be developed with a five-year time horizon to align with the Council's MTFP and over-arching objectives. Those plans will be informed by accurate condition data and environmental improvement plans.

13. JLL have identified assets which form the basis of a five-year implementation

plan for disposal and raising capital receipts. These are detailed within the exempt appendix. The program will achieve the objectives of reducing inherent repair liabilities and drive the efficient and effective deployment of capital to enhance returns and portfolio performance. By systematically reducing the weaker and under-preforming assets the portfolio will be positioned to generate longer term sustainable revenue and capital growth.

Strategic Asset Management Action Plan

14. In line with the advice from JLL a revised SAMF action plan has been drafted to guide asset disposals as well as the proactive management of the remaining portfolio. This is organised into four sections as follows:
    a. Data – commissioning of improved data on retained assets including condition surveys and energy efficiency improvement plans along with reinstatement valuations. This will allow for more detailed asset review and investment plans to be prepared for retained assets.
    b. Repairs & Maintenance – improved condition data on assets will bring to light immediate repair requirements, these will need to be scheduled in and actioned on receipt of condition reports.
    c. Asset Management – the action plan lists a number of actions to ensure the proactive management of assets. This includes the detailed evaluation of assets identified for disposal in this report as well as a list of assets for more detailed asset review. Further detail is within the exempt appendix.
    d. Systems – a new asset management system has been launched in January 2024. There are a number of stages of development of this system, the detail and timescales for this are being pulled together in a new business case to guide this work.

15. The action plan sets out timescales for action and links to asset schedules which are contained in the exempt appendix.

16. The delivery of the action plan will also lead to capital investment plans for existing retained assets. It is proposed to obtain a full suite of condition data and environmental improvement plans (where these are lacking) in year 1. Such data will inform more detailed asset reviews on retained assets in order to inform capital investment plans to improve the condition and environmental performance of retained assets. This will be essential to reduce responsive repair costs going forward and will ensure the sustainability of income from assets in the medium to long term.

Governance

17. In order to monitor delivery, it is proposed to set up an Asset & Development Board. This board will:
    a. Monitor implementation of the Asset Management Strategy & Action Plan;
    b. Consider asset reviews
    c. Consider asset disposal's
    d. Monitor asset performance
    e. Consider lease events >£500k value over 5 years
    f. Monitor the progress of the development pipeline sites (see associated cabinet report relating to the development site pipeline)

18. In relation to any new capital expenditure on existing assets. The Asset & Development Board will make recommendations to the Capital Board who will consider inclusion within the wider capital programme to ensure affordability, borrowing capacity and rate of return. If approved by capital board the usual governance arrangements in relation to cabinet and full council will remain.

19. The board will monitor progress and undertake updates to the plan as necessary with bi-annual updates as part of financial monitoring reports to cabinet.

20. Further detail on the role of this board in relation to disposals is outlined below.

Asset Disposals

21. In order to manage the disposal of assets it is proposed to delegate the disposal of assets listed in the exempt appendix to the Executive Director of Development & City Services in consultation with the S151 officer and the cabinet member for resources. At this stage it is proposed to delegate authority for disposal of 8 assets in year 1 of the five year plan. This is in addition to 5 assets where disposals are being progressed in year 1 and for which a resolution to dispose has already been given by cabinet. Assets in the latter stages of the JLL plan will be subject to a more detailed review and subsequent report/s to cabinet seeking authority to dispose. These have been built into the asset review lists in the exempt appendix. A report on progress and to consider any additional disposals will be brought to cabinet on 12 months time.

22. Assets which once competitively marketed fail to achieve bids in line with the estimates in the exempt appendix, unless de-minimis, will be subject to further review. The figures for estimated capital value in the exempt appendix are estimates based on income yield and not formal red book valuations which take account of asset condition. Therefore, in such circumstances an external red book valuation would be sought to gain a more accurate valuation. If bids are below 90% of a red book valuation any decision to continue to dispose of the asset will be subject to a further report to cabinet.

23. Assets for which delegated authority to dispose is granted will be subject to a further review ahead of disposal with a report to the Asset & Development Board to allow a final decision. That report will consider any implications for existing tenants, the most appropriate method of disposal, which could include auction, and how best value considerations will be achieved.

Financial and Resource issues

24. Asset management decisions must be made within the context of the council's priorities, as set out in its Corporate Plan and the Medium-Term Financial Plan.

25. Assets identified for disposal have the potential to raise £3.34m in capital receipts and reduce a minimum of £1.8m in capital liabilities, which would have increased borrowing requirements but at the cost of £204k rental income.

26. JLL recommend recycling of capital receipts into property. However, as a matter of course, the Council will automatically apply investment property capital receipts against debt, reducing capital financing charges in the short term (minimum revenue provision and interest payable) before making a decision on whether to re-invest.

27. At current interest rates, this could generate more than £170k in treasury returns based on 5% plus interest rates, although our treasury management advisors forecast lower interest rates going forward.

28. Whether the Council reinvests into existing properties will be made on a case-by-case basis. However, it is expected the remaining assets would have many investment options capable of realising an enhanced investment return. In the meanwhile, the council would still have that cash to generate treasury returns, protecting the revenue budget overall.

29. Upcoming rent reviews should increase rents by £660k, as detailed in the exempt appendix. The new board will monitor revenue performance.

30. External consultancy costs will be managed within the property services budget but if this does not prove to be possible the commercial property reserve is available to cover any shortfall.

31. Asset disposals will be managed in house by existing resource. Agents will typically be used for marketing and this cost along with any legal fees will be set against the capital receipt, subject to a limit of 4% in line with guidance.

32. A more detailed summary at individual asset level is provided in the exempt appendix.

Legal issues

33. By virtue of section 123 of the Local Government Act 1972 the city council has the necessary statutory powers to dispose of its land. This section also states that on a disposal, the council are under a statutory obligation to obtain the best consideration that can reasonably be obtained for the land.

34. Best consideration will typically be achieved via a competitive marketing process. In cases where there is a proposed sale to a 'special purchaser' due to the ability to realise a marriage value, these will be subject to a red book valuation to ensure that there is an uplift above market value.

35. Achieving best consideration will also ensure that the council is not caught by the subsidy control regime.

36. Section 122(1) of the Local Government Act 1972 states that local authorities have a general power of appropriation for land or property which is no longer needed for the purpose its held: '*a principal council may appropriate for any purpose for which the council are authorised by this or any other enactment to acquire land by agreement any land which belongs to the council and is no longer required for the purpose for which it is held immediately before the*

appropriation' but subject to the rights of other persons in or over the land.

37. This general power is subject to the provisions of section 19(2) of the Housing Act 1985. This states that if property is being used for housing accommodation, the consent of the Secretary of State is required if the property is to be disposed of or otherwise taken out of the Housing Revenue Account. This section only applies to properties used partly or wholly for housing, including yards, gardens and outhouses.

38. This section only applies to properties used partly or wholly for housing, including yards, gardens and outhouses so land or property used solely as garages would not therefore be caught by this requirement. Accordingly, Secretary of State consent would not be required here and section 122(1) (as above) would allow the Council to dispose of the land.

39. None of the sites identified for disposal include any form of open space land and therefore section 123(2A) of the Local Government Act is not considered to apply.

Statutory Considerations

Consideration	**Details of any implications and proposed measures to address:**
Equality and Diversity	Sale of the assets will result in the transfer of the freehold interest, but this is not anticipated to have any material equality and diversity implications.
Health, Social and Economic Impact	There are no direct consequences flowing from these proposals.
Crime and Disorder	There are no direct consequences flowing from these proposals. Albeit some of the properties in question are vacant and therefore can be targets for crime and disorder. The decision to dispose should assist in bringing the assets back into use.
Children and Adults Safeguarding	Not applicable
Environmental Impact	Gaining better condition and environmental performance data on assets will allow for assets reviews and capital investment plans to be produced which will allow for enhance environmental performance of retained assets.

Risk Management

Risk	Consequence	Controls Required
Inability to dispose of the asset for the capital values identified.	Reduced capital receipts.	This will be monitored by the board and the action plan will be updated. A further asset review will be undertaken for assets which fail to sell on the open market.
Deterioration of market interest for this property type	We are unable to generate interest for this building and worsen our position.	This will be monitored by the asset & development board. There will need to be flexibility over the exact timing of disposals to guard against this and the board will also consider the best method of disposal to realise a sale and maximise a return.
Substantial liabilities are identified in retained assets via new condition data.	Increase capital costs of maintaining the asset v. revenue loss of disposal.	Retained assets will be subject to a detailed asset review to consider best outcomes and this will include consideration of the implications cumulatively across the portfolio.

Reasons for the decision/recommendation

40. The recommendations within this report are aimed at ensuring the continued proactive management of our property assets. This builds on the substantial achievements made over the past 2 years and as set out in this report. Setting out a clear policy for assets, understanding why we own them and how they contribute to corporate objectives, having a framework for challenging assets and an action plan for service transformation is the best way of maximising the use of our property assets. The investment portfolio plays a key role in helping to fund front line services and our proactive management of the portfolio will ensure that this is sustainable into the future.

Background papers:

Appendices:
Revised SAMF Action Plan
Exempt Appendix

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Norwich City Council Strategic Asset Management Framework Action Plan - Updated March 2024

Specific			Measurable			Attainable		Relevant			Time-Based
Ref.	Key Actions	Comment	Baseline Data	Governance	Measurement of Success	Responsible Department	Financial / Resources	Key Drivers	Priority H/M/L	Impact H/M/L	Delivery Timescale
Data											
Ai	**Commission condition surveys / EPC improvement reports**	Gain for all assets envisaged to be retained as part of the 5 year plan.	Detailed asset schedule	Asset & Development Commissioning Board	Condition data for all assets to be retained	Property Operations Team	External consultant - £125k Budget Requirement	Understand liabilities - financial resilience	H	M	Q3 24/25
Aii	**Insurance Reinstatement Valuations**	5 year plan of reinstatement valuations - agreed as part of recent insurance tender	Reinstatement valuation program	Asset & Development Commissioning Board	Valuations received as per program	Property Operations Team	External consultant - circa £70k pa	Mitigate risk of underinsured premises	M	M	As per five year program
Repairs & Maintenance											
Bi	**Undertake priority repairs / capital works**	Works needed for H&S reasons / preventative maintenance identified in Condition Data	Informed by Ai	Health & Safety Board	Works complete	Property Operations Team	Potential for increased repairs and maintenance costs across portfolio - proposed use of commercial property reserve for any overspend where required.	Legal compliance / H&S / preventative Maintenance	H	H	Q4 24/25
Asset Management											
Ci	**Undertake emerging rent reviews**	Undertake rent reviews	Detailed asset schedule	Asset & Development Commissioning Board	Completion of rent reviews in line with schedule	Strategic Asset Management Team	External agency support will be used where it is likely to realise a greater uplift - budget estimate £67k	Financial resilience - income generation	M	M	Detailed asset schedule
Cii	**Detailed evaluation of disposal assets for Board decision**	Undertake a detailed review of disposal assets in year for decision of Board	Detailed asset schedule	Asset & Development Commissioning Board	Asset disposal decisions in line with schedule / successful disposal	Strategic Asset Management Team	Internal by Strategic Asset Management Team	Financial resilience - capital receipts	M	M	Detailed asset schedule
Ciii	**Asset reviews for retention assets**	Undertake detailed review of assets identified for retention in the five year plan	Informed by Ai	Asset & Development Commissioning Board	Completed review and outcome in line with schedule	Strategic Asset Management Team	Internal by Strategic Asset Management Team	Financial sustainability - proactive asset management	M	M	Detailed asset schedule
Civ	**Develop capital investment strategy for retention assets**	Capital strategy for asset disposal and capital expenditure on assets 2022-2023	Based on outcomes of Ai & Ciii	Capital Working Group / Capital Board	Capital strategy adopted by Cabinet	Property Operations Team	Property Team working with Finance	Financial resilience - Capital Strategy	M	M	Q4 24/25
Cv	**Base budget review including consideration of sinking funds for remaining portfolio**	Based on understanding of condition liability data and capital strategy	Data from Ai & Ciii	Asset & Development Commissioning Board	Funds established	Strategic Asset Management Team	Property Team working with Finance	Financial resilience	M	M	Q4 24/25
Systems											
Di	**System Development & Process and Procedure Updates**	Development of CIPFA Asset Manager system implemented in Jan 24 - to implement capital accounting and repairs and maintenance modules with associated procedures.	Current State Processes which have been mapped	Major Projects Directorate Board	Implementation in line with business case	Strategic Asset Management Team	Resource considered as part of business case	Financial resilience	M	M	As per business case to be signed off by Q1 24/25