

**MANAGEMENT OF THE COUNCIL'S NON-RESIDENTIAL
PROPERTY ESTATE – EMBRACING A CORPORATE LANDLORD
MODEL**

**INVESTMENT & DEVELOPMENT (COUNCILLOR RUSSELL
GOODWAY)**

AGENDA ITEM: 9

Reasons for this Report

1. To confirm Cabinet's commitment towards the full implementation of the Corporate Landlord model across all areas of the Council's non-domestic estate and to highlight some proposed changes required to accelerate progress.
2. To agree Cabinet's response to the recommendations of the Policy Review & Performance (PRAP) Scrutiny Committee as contained in the report of its Task & Finish Group "*Managing the Estate Under a Corporate Landlord Model*", a copy of which is attached at Appendix 1.
3. To report progress in addressing the recommendations of the September 2017 Independent Review of Health Safety Compliance across the Council's operational estate.
4. To seek Cabinet approval of the process to be followed to identify and deliver capital receipts required to meet the commitments set out in the Medium Term Financial Plan.

Background

5. The Council manages an estate of some 1000 non-residential properties with a current use value of circa £1.2 billion. Approximately 450 properties (circa 2,000 buildings) are currently being used for operational purposes. However, the estate presents significant challenges in terms of its annual running costs, now in the region of £60 million and in terms of the ever growing maintenance backlog currently estimated at some £370 million. The position is compounded by a mixed picture in terms of statutory compliance, particularly in respect of health and safety requirements, which has taken over 12 months of corporate focus to understand and manage.

6. As a result, in recent years, the manner in which the Council manages, operates and maintains its estate has come under internal and external scrutiny including a detailed review by the Wales Audit Office that led to a series of recommendations designed to improve the way in which the estate is managed. In response the Council developed its 2015-2020 Corporate Property Strategy which WAO has acknowledged should go some way to addressing the current issues.
7. As part of the strategy, a new approach which aims to centralise all property related functions under one directorate to improve decision making, governance and financial management is being implemented. This approach, which has become known as the Corporate Landlord model, will result in the “ownership” of all property assets (other than those managed by the Housing Revenue Account) being transferred from individual directorates to the County Estates within the Council’s Economic Development Service.
8. Alongside the development of the Corporate Landlord model, the Council has also established a programme of property modernisation, rationalisation and collaboration with other service areas and other partner organisations designed to improve the efficient use of the overall estate. This process is managed via the annual Corporate Land and Property Management Plan (CLPMP). The 2018/19 CLPMP was presented to Cabinet in February 2018 and sets out in a clear and transparent way, the process by which a detailed programme of disposals, relinquishments and investments will be delivered during the current year. The Medium Term Financial Plan presented to Council in February this year, as part of the detailed 2018/19 budget proposals, includes an ambitious target for the delivery of some £40 million of useable capital receipts over the medium term. The Administration is conscious that, if this target is to be achieved then, a programme of disposals will need to be agreed at an early date. Although it will undoubtedly prove to be controversial, the detailed list of the properties to be disposed of will need to be presented to Cabinet in the autumn in order to allow for a realistic and manageable timetable to be agreed and appropriate marketing arrangements to be put in place. The proposed approach for identifying the list of disposals is presented later in this report.

Policy Review and Performance Scrutiny Task and Finish report

9. The PRAP Scrutiny Committee, at its meeting on the 20 September 2017 established a Task & Finish Group charged with undertaking an inquiry into the Council’s approach to managing the estate under a Corporate Landlord model within the following Terms of Reference:
 - To examine Cardiff Council’s proposal to adopt a Corporate Landlord model and ascertain the benefits for residents, community groups, and the organisation by:
 - Establishing the reasons for introducing the model
 - Identifying the scale of benefits for community organisations in terms of access to facilities

- Identifying the scale of benefits for the Council in terms of capital and revenue budgets
 - To identify the key challenges overcome by other Local Authorities who have adopted the Corporate Landlord model
10. The Task & Finish group collected and assessed evidence obtained from a number of expert witnesses as well as elected members and council officials and has now reported its findings and its associated recommendations to the PRAP Scrutiny Committee which has endorsed the report. The report has been forwarded to Cabinet for its consideration. The Task & Finish Group has recommended:
- R1. *Cabinet agrees, within three months of the Assistant Director (Corporate Landlord) taking up post, a clear statement of its vision for the Corporate Landlord model in order to counter contradictory interpretations. The statement, based on ensuring that there is complete corporate “buy-in” for the model if it is to be successful, should be a key component of future Corporate Land and Asset Management Plans and must give an unambiguous message that the Corporate Landlord model is fundamental to the future operation of the Council.*
 - R2. *The Council Leader must ensure that political responsibility for the Corporate Landlord sits within a single Cabinet portfolio. There can be no “partial” Corporate Landlord.*
 - R3. *Cabinet tasks the new Assistant Director (Corporate Landlord) with creating a centralised Corporate Landlord management structure, to ensure that central management of all corporate assets is in the hands of property experts.*
 - R4. *A Corporate Landlord executive summary is produced annually as part of the budget setting process in order to identify the resources available to meet the asset maintenance backlog. The executive summary should include:*
 - *Value of the current maintenance backlog*
 - *Prioritised list of asset maintenance projects*
 - *Investment estate market value*
 - *Current revenue generated from the investment estate*
 - *Capital receipt targets*
 - *How increased revenue will be allocated*
 - *Should there be a gap between capital receipts (source of funds) and maintenance costs (allocation of funds) the executive summary should enable estate managers to close the gap if needed.*
 - R5. *The Chief Executive should review and refresh as required the roles and responsibilities of the senior management team to reflect*

the centralised management of assets under a Corporate Landlord Model.

R6. A preventative maintenance programme must be in place for all Council assets. Cabinet should ensure that:

- Proposals for new buildings factor in preventative maintenance at the planning stage*
- A preventative maintenance is in place for retained assets*

R7. Cabinet should ensure that, during the first 12 months following the appointment of the Assistant Director (Corporate Landlord), Landlord and Occupancy Agreements are put in place for all Council properties and the terms agreed by relevant parties. For schools, in particular, agreements must make explicit where responsibility lies for the management and maintenance of school buildings. The implications of the Corporate Landlord model for school budgets must be made clear by the start of the 2019/20 school financial year.

11. As the Cabinet Member responsible, I welcome the report and I am minded to advise Cabinet to agree its recommendations in full with one partial exception, and subject to the review of senior management arrangements outlined later in this report. In relation to R6 above, whereas I am minded to recommend acceptance in regard to new buildings, I am advised that, given the current condition of the estate, to attempt to put in place a preventative maintenance programme for retained assets would be neither affordable nor deliverable. However, I am prepared to recommend that Cabinet agrees that the Council adopts a condition based regime in relation to existing assets which will maintain the correct priority asset at the relevant time. I am advised that this approach uses real-time data including, cyclical inspection requirements (e.g gas boiler service reports) health and safety inspections (e.g. fire risk assessments) and property condition monitoring reports, combined, to prioritise and optimise maintenance resources and funding.

Issues

12. The Council is currently part way through the implementation of the Corporate Landlord model which essentially vests ownership and responsibility for all of the Council's non domestic land and property assets centrally with the County Estates based in the Economic Development Directorate. As part of this, nearly all (non-domestic) property related budgets have been centralised and the majority of (non-domestic) property related staff across the authority have also been transferred into the Economic Development Directorate. In addition, numerous strands of work have also been initiated:
- Work to better understand and collate the value, costs and utilisation associated with all of the Council's buildings and land assets;

- Work to ensure the Council's buildings are safe and comply with statutory Health and Safety regulations;
 - Work to ensure better value for money is achieved for every pound spent on property by the Council;
 - Work to improve the reputation of the Council as a Landlord through better communication with users of buildings and more clearly defined responsibilities.
13. In November last year Cabinet approved the Strategic Outline Business Case for Band B of Welsh Government's 21st Century Schools Programme. This will result in the replacement of a number of the Council's secondary, primary and additional leaning needs school buildings which are currently in an extremely poor condition. In the February 2018 budget, Council also approved a substantial increase in the asset improvement budgets available for schools over the next 5 years.
 14. Work has since been initiated by the Education Service and County Estates to consider how this investment will be implemented effectively. External advice has been commissioned to review the skills, capacity and governance that will be required and is attached as Appendix B. In summary, it is proposed to introduce a new wrap of governance to ensure robust decision making involving all relevant areas of the Council and ensuring better review by relevant Cabinet members, as outlined in Appendix C. It is also proposed to bolster capacity within both the Education Service and County Estates. In particular it is proposed to appoint a new senior manager within the Education Service to provide the Senior Responsible Officer programme management oversight of the whole Band B programme.
 15. County Estates will support the Education Service to deliver all of the the property elements of the Band B programme. Essentially a client – contractor relationship will be established, with the Education Service as client and County Estates as contractor. In addition to this, budgets relating to the maintenance of schools will now be held by County Estates, with spend prioritised jointly by the Education Service and County Estates to ensure educational priorities are considered equally alongside property condition priorities when deciding where to invest. Given the scale of the programme, additional senior management capacity will also be required within County Estates. To that end it is proposed to review existing senior management arrangements in County Estates to enhance management capacity which may include the deletion of the vacant Assistant Director Corporate Landlord post to enable current allocated resources to be reallocated in accordance with the findings of the review.
 16. In addition to bolstering staff capacity, there is a need to further centralise control over property related spend across the Council. At present there remains opportunity for service areas to spend budgets without proper approval through the Corporate Landlord processes. This creates significant budget management issues which tend to manifest in overspends at year end. It is therefore proposed that financial control

mechanisms are put in place to ensure sign-off of all property related spend is undertaken by the Director of Economic Development or officers with the appropriate delegated authority from the Director of Economic Development.

Health & Safety and Statutory Compliance

18. Following the unplanned closure of three secondary schools in 2016/17 the Council commissioned an independent review of health and safety compliance across the schools estate which was subsequently extended to cover the whole of the operational estate. The review is attached as Appendix D. In March 2018 the Council commissioned the same independent advisor to undertake a further review to report on progress against the original recommendations. The March 2018 report is attached as Appendix E.

Statutory Obligations

19. The key recommendations made in the original report of September 2017 can be summarised as follows:
- Increase visibility of the Property Portfolio as a corporate asset and service enabler.
 - Provide absolute clarity in key areas of risk and the management, mitigation, visibility and reporting thereof under a single point of control and communicated properly.
 - Provide absolute clarity in accountability, responsibility, competence, control, and effective communication thereof.
 - Overcome the complexity of financial resources, financial constraints and drivers for cost savings and lack of resources being channelled correctly into reinvestment and preventative activities.
 - Invest in Health and Safety of property management, buildings and operations, creating a culture where Health and Safety is accepted and embraced as part of everyone's role.
 - Address Governance and Assurance: Enhance visibility, control and assurance at senior management level in Health and Safety, Compliance and Regulations.
20. Work has been taken forward on addressing all of these key matters, however assurance was more recently sought by the Chief Executive to review whether substantive progress has been made (see Appendix E).
21. The March 2018 report observes that the introduction of the Corporate Landlord programme is a major step forward in the management and control of the Council's estate. It recommends however, that its role must be communicated effectively across the Council and that the correct controls are put in place. The report recognises that the Corporate Landlord programme is in itself a significant programme that will take a number of years to fully implement and pointed out that there needs to

be vigilance in the intervening period around commissioning of works, compliance and health & safety.

22. Whilst the report noted that controls and processes have been put in place, it also noted that there are still instances occurring where works are commissioned on the estate outside of these controls, that has the potential to undermine this progress. Significantly, whilst the corporate health and safety team has expanded and will expand further, schools are still able to utilise unapproved contractors and this represents an ongoing risk. The report acknowledges that the newly drafted Education Schools Handbook and Memorandum of Understanding helps to clarify roles and responsibilities and that the new Property Services Service Level Agreement 2017, issued to schools offers a proactive solution that seeks to both support and address the issue.
23. The report also supports the introduction of the RAMIS system, noting that: *“the recent purchase and installation of the RAMIS compliance management system is an important ‘enabler’ for improving performance in the area, in particular, the development of an Inspection and Testing Forward Plan to assure compliance.”*
24. The independent advisor recognised that further improvements will be achieved through the establishment of the fully funded internal Statutory Obligations team within Property Services, together with the establishment of separate contractual arrangements specifically for the delivery of statutory obligations testing and remedial works. These actions are both progressing.
25. The corporate Health & Safety team has been strengthened with the appointment of a new Head of Health & Safety and an agreed new structure has been agreed and is being appointed. This team will add specific expertise on property related statutory obligations, provide advice into the Corporate Landlord functions and conduct regular audits and inspections on internal and external contractors. To further support this approach the Corporate Health and Safety team and the Education Service have agreed a new Service Level Agreement for providing robust health & safety advice to schools at a local level with dedicated officers currently being recruited.
26. While many actions identified both internally and by the external independent advisors are either underway or completed, there remains a significant set of improvement actions that will take a number of years to complete in full. The next steps in this area of the Corporate Landlord programme are as follows:
 - Fully populate the new RAMIS system covering all health & safety inspection scheduling regimes and complete the training of all users, managers and contractors for all safety related inspections and remedial works.
 - Establish a Corporate Asset Management Commissioning Group to compliment other Commissioning Groups such as the Education or Community Asset Commissioning Groups.

- Complete the separation of the Statutory Obligations team from an income generation approach.
 - Set up and resource a fully committed Customer Account Management system to further support embedding health & safety delivery for customers, while building on customer relationships.
 - Set up a cogent Contractor Account Manager hierarchy for robust contract safety management relationships.
27. The outcome of these changes will bring about:
- Assurance of strong risk management of our buildings and safety for all their users.
 - Provision of a buildings portfolio which is fully compliant with statutory obligations.
 - Provide a 100% pre-planned compliance works and deliver above 95% compliance at any one time.

Medium Term Disposals Programme

28. As stated above, a key part of the strategy to improve the quality of the Council's estate and health & safety compliance is to dispose of the poorest quality assets in the Council's ownership. This strategy relates directly to the recent commitment in the Council's budget 2018/19 to deliver an enhanced programme of disposals to generate additional capital receipts to support the Council's Medium Term Financial Plan and the Band B schools investment programme.
29. The delivery of the projected capital receipts will come from the release of assets across the operational estate, the non-operational estate and the Council's land assets. In accordance with the Council's Property Strategy, a schedule of audits, which provide greater intelligence on all assets including occupancy, suitability and safety compliance are underway and will be used to identify opportunities to generate windfall receipts as well as opportunities to reduce the maintenance backlog.
30. It is anticipated that once the estate is fully reviewed sufficient assets will be identified for release to deliver the enhanced capital receipt programme. However, it is important to note that to enable the programme for the delivery of capital receipts, funding will be required for supportive estate management costs, transition maintenance costs and the costs of relocating services or community provision where they are deemed essential to continue. Further work is required to develop a detailed funding plan for this enabling expenditure in particular identifying the extent to which this expenditure can be capitalised by top-slicing capital receipts. Any enabling costs that are appropriate to be capitalised, will require an even greater level of receipts to be achieved to off-set these costs.
31. A detailed report setting out the full capital receipt programme will be the subject of a further report to Cabinet in the Autumn. However, whilst the

work to audit the estate is undertaken, a level of immediate control is required forthwith if the future targets are to be achieved. In particular, it will require all historic and future property and land uses to be sufficiently challenged. It is therefore proposed for the following controls to be put in place with immediate effect across the entire operational estate:

- All requests for design work to have corporate visibility through the new governance arrangements.
 - All requests for property improvements/investment to have corporate control through the new governance arrangements.
 - All requests for Community Asset Transfers, Third party occupancies, licences or leases of any part of the estate to have corporate visibility through the new governance arrangements.
 - Change of use and occupancy on all of the estate (schools, community and all other users) to be agreed and asserted through the governance arrangements.
 - It is imperative all underutilised, surplus and or vacant properties must be reported through the new governance arrangements.
 - All works on any asset are managed through one set of agreed governance processes to assess and assure compliance and suitability.
32. In order to support the disposals programme through the release of operational property, there will be a requirement for Service Areas to produce Service Area Property Plans, linked to Service Area Workforce Strategies, outlining how they will support delivery of the Council's strategic property targets. Further to this, it is proposed that all decisions made by the Council will properly consider the property implications of decisions. As such, it is proposed that all relevant Cabinet Decision reports and Officer Decision reports will consult with Corporate Landlord in a similar way to financial, legal and HR advice.

Reason for Recommendations

33. To continue the implementation of the Corporate Landlord programme and to update Cabinet on progress in regard to health and safety compliance.

Legal Implications

34. The Council has an underlying fiduciary duty to ensure value for money from the acquisition, management and disposal of public assets.

Financial Implications

35. The report identifies a number of areas where additional Corporate Landlord resources, or amendments to budgetary arrangements, are proposed but the funding mechanism to deliver these changes has not been identified. The Statutory Obligations section of the report specifically refers to the separation of the Statutory Obligations team from

the income generation funding approach, which applies to the remainder of Building Services, without identifying how it is proposed that this team would be funded. Paragraph 14 refers to proposals to bolster capacity within both the Education service and the Council's Property functions. Again how this increased capacity will be funded will need to be developed and included in the future review of the relevant management arrangement. Given the financial pressures facing the Council in the short and medium term any additional capacity or resources will need to be funded from existing resources including from delivered savings. Any risks to the Council with regard to the delivery of these savings, such as the generation of additional income, and the timing of these savings in relation to the costs they are financing will need to be identified in the relevant detailed Implementation Plans. A joint approach is proposed for the delivery of the property elements of the Schools Plan B programme. The successful delivery of this programme will be conditional on a clear understanding and clarity of the respective parties roles and responsibilities including their financial roles and responsibilities.

36. The Medium Term Disposals Programme section of the report outlines an approach to generating additional capital receipts. This potentially involves an element of "top slicing" to fund enabling expenditure to deliver this enhanced programme of receipts. The details of what is included in this enabling expenditure will need to be developed in order to ensure that it meets the criteria for being classified as capital expenditure. The use of Capital Receipts is restricted to funding capital expenditure or the repayment of debt. If it is not possible to fund this expenditure from capital receipts then alternative funding sources will need to be identified for this expenditure.
37. The PRAP Scrutiny recommendations include endorsing the switch from a reactive maintenance regime to one that is focused on a planned preventive maintenance programme. The transition will take a number of years to fully embed and will be driven by the Corporate Landlord Operating Model underpinned by the improved management information obtained from the property condition surveys. With the financial pressures facing the Council over the MTFP horizon the planned preventive maintenance programme will need to remain affordable as emphasised in paragraph 11 above. This will involve the prioritisation of maintenance works which in turn will be informed by the Council's Disposal programme, the Service Areas Property Plans and the property condition surveys.

RECOMMENDATIONS

Cabinet is recommended to:

1. Accept the recommendations of the PRAP Scrutiny Task & Finish Group Report attached as Appendix F, except for Recommendation 6 which is partially accepted as explained in this report.

2. Note the recommendations of the independent review of statutory obligations and health and safety compliance set out in Appendices 2 and 3 and the on-going work to address the key recommendations.
3. Approve the strategy outlined in this report for commencing the identification of disposals and relinquishments to deliver the capital receipts required to meet the Medium Term Financial Plan.
4. Agree to the proposals set out in this report to enable the full implementation of the Corporate Landlord model, including:
 - a) Tighter controls over all building related spend.
 - b) The delivery of all new build projects through the Corporate Landlord team based in the Economic Development directorate.
 - c) Requirement for Property Implications to be included in all Cabinet Reports and Officer Decision Reports where there is an impact upon Council owned land and buildings.
- (v) Delegate authority to the Chief Executive, in consultation with the Cabinet Member for Investment & Development and the Cabinet Member for Finance, Modernisation & Performance, to review and implement new senior management arrangements for the Council's Property Functions within the Economic Development Directorate, including if required the deletion of the vacant Assistant Director post.

SENIOR RESPONSIBLE OFFICER	Neil Hanratty Director of Economic Development
	6 July 2018

The following appendices are attached:

- Appendix A: Schools Building Handbook & Memorandum of Understanding
- Appendix B: Education Delivery Strategy Review
- Appendix C: Property Governance Arrangements
- Appendix D: Independent report on health & safety compliance
- Appendix E: Progress report on the implementation of the compliance Action Plan
- Appendix F: Managing the Estate under A Corporate Landlord Model - PR&P Scrutiny Committee. May 2018
- Appendix G: Equality Impact Assessment