
Non-Operational Property Review

Reason for the Report

1. To provide Members with background information to aid their consideration of the Council's Strategic Review of the Non-Operational Estate. Non-operational property is defined as property and land owned by the Council but not used to operate from or to deliver services. Often these properties are let for commercial return or to promote local employment, small businesses and the economic regeneration of local areas.

Background

2. In June 2010, the Wales Audit Office published a review of public sector property management, the 'Buildings Management National Briefing'. It noted that across Wales, the public sector spends over £500 million a year on running land and buildings (both operational and non-operational) worth c. £12 billion. Around £8.5 billion of this estate is managed by local authorities.
3. The report noted a number of issues with the management of this property estate across Wales:
 - The condition of the land and buildings is generally poor and many organisations do not have accurate information regarding their maintenance backlog;
 - While most organisations have land and property strategies in place, these are often out of date, insufficiently flexible, or inadequately resourced;
 - Performance management of the public sector estate is weak in terms of setting objectives and monitoring performance, so it is unclear whether the effective use of land and buildings is improving;

- At an operational level, management of land and buildings is often inconsistent;
 - Organisations also often concentrate on the short-term and do not place enough emphasis on non-financial issues, such social and sustainability impact, in the management of their estate.
4. Following a review of the Council's Asset Management Plan, the Wales Audit Office's Preliminary Corporate Assessment (considered by the former Committee membership in September 2010) also revealed that the WAO considered that the Plan did not contain principles that were sufficiently robust to enable effective management of the Council's property. Following this review, the Council identified a need to improve corporate arrangements for asset management and appointed the Corporate Property & Estates Manager to develop a land and property strategy. The documents making up this strategy were presented to the former Committee membership in December 2010.
5. The former Executive also established a Land & Buildings programme under the Transformation Portfolio. Under this Land & Building programme, a Non-Operational Property Review ('the Review') was established in 2011, to determine a rationale for the Council's interest in non-operational property and assess its management. The Council owns properties across the city, including shops, workshop estates and hotels. This estate allows the Council to exercise some control over the availability and use of land and property in Cardiff, enabling the Council to promote economic regeneration and neighbourhood renewal. To date there has been no clear policy in place in terms of how the Council should exercise this control.
6. The project therefore aimed to:
- Determine the rationale for the Council retaining its interest in this portfolio property;
 - Collate and analyse available information to inform policy development;
 - Develop and gain agreement of clear policy and financial guidelines for strategic and tactical management of non-operational property;
 - Specify and implement organisational and process changes for cost effective management of non-operational property;

- Develop and implement changes and take opportunities made available by this clarification and change of approach.
7. In order to undertake the Review, a multi-disciplinary team was established, comprising service areas across the Council, including Strategic Estates, Finance, Economic Regeneration, Major Projects, Neighbourhood Partnerships and Communications. The team undertook an analysis of the Council's current non-operational estate in terms of number and types of properties. The presentation attached at **Appendix A**, which will be given at the meeting, gives this analysis as at April 2012. Members will note that the Council owns over 700 units under a variety of lease types and terms. Attached at **Appendix B** is an A3 version of the map included in the presentation, showing the locations of these properties across Cardiff.
8. Members will see from the presentation that the percentage net yield achieved from these properties varies from 3.7% to 8.4%, with an average of 6.4% during the 2010/11 financial year. Total annual gross rental income at that point was c. £3.9 million. The non-operational estate also had an estimated maintenance backlog of £1.4 million.
9. In January 2012, the former Executive considered a progress report regarding the ongoing Non-Operational Property Review project. The report gave details regarding the current management practices with regards to the Council's non-operational property estate, stating that from time to time tenants approach the Council with a view to purchasing the freehold of a property or a re-gearing of their lease. Historically, each application has been considered on its own merit, with a presumption in favour of lease re-gearing, although sales have been considered in some circumstances. There has been no defined rationale for retaining or disposing of an interest in a property.
10. At that point, the project team was in the process of evaluating a large number of options for the future of the non-operational estate, including:
- Wholesale estate retention with a continuation of existing management practices;

- Expansion of estate to provide additional employment opportunities and increased revenue;
- Estate rationalisation, disposing of poorly performing, not fit for purpose properties or estates/shopping parades, replacing them with modern equivalents or refurbished facilities;
- Individual open market unit sales where there is vacant possession;
- Individual sales subject to tenancy as investments;
- Individual sales to sitting tenants at pre-determined values (investment, open market value or appropriate discounts);
- Sales of discrete estates (workshops, shopping parades) to investors at investment value subject to tenancy;
- Potential wholesale sale of estate to major investor, or establishment of Special Purpose Vehicle Joint Venture between Council and investor;
- Site exchange(s) at value for other strategic facilities required by Council;
- Community Asset Transfer;
- Positive promotion of sites with redevelopment potential with either public or private sector partners;
- Long leasehold transactions, as opposed to freehold conveyances.

Way Forward

11. Councillor Russell Goodway, Cabinet Member for Finance, Business and the Local Economy will attend the meeting. Christine Salter, Corporate Chief Officer – Corporate Services will also be in attendance, as senior officer responsible for the Council's Strategic Estates division. Charles Coats, Corporate Property & Estates Manager, will attend to give the attached presentation and answer Members' questions.

12. In considering the Non-Operational Property Review, Members may wish to consider the following lines of enquiry:

- The options considered for the future management of the estate;
- The potential social, economic and environmental impact of these options;
- The resourcing implications of the options presented;
- The performance monitoring of the Council's non-operational estate;

- Consultation with those who may be affected by any changes to the way in which the Council manages its estate;
- How the management of the Council's non-operational estate links to the Council's strategic documents, such as the Corporate Plan.

Legal Implications

13. The Scrutiny Committee is empowered to enquire, consider, review and recommend but not to make policy decisions. As the recommendations in this report are to consider and review matters there are no direct legal implications. However, legal implications may arise if and when the matters under review are implemented with or without any modifications. Any report with recommendations for decision that goes to Cabinet/Council will set out any legal implications arising from those recommendations. All decisions taken by or on behalf the Council must (a) be within the legal powers of the Council; (b) comply with any procedural requirement imposed by law; (c) be within the powers of the body or person exercising powers of behalf of the Council; (d) be undertaken in accordance with the procedural requirements imposed by the Council e.g. Scrutiny Procedure Rules; (e) be fully and properly informed; (f) be properly motivated; (g) be taken having regard to the Council's fiduciary duty to its taxpayers; and (h) be reasonable and proper in all the circumstances

Financial Implications

14. The Scrutiny Committee is empowered to enquire, consider, review and recommend but not to make policy decisions. As the recommendations in this report are to consider and review matters there are no direct financial implications at this stage in relation to any of the work programme. However, financial implications may arise if and when the matters under review are implemented with or without any modifications. Any report with recommendations for decision that goes to Cabinet/Council will set out any financial implications arising from those recommendations.

RECOMMENDATIONS

The Committee is recommended to:

- i. consider the information contained in this reports and its appendix, and the information presented at the meeting; and
- ii. decide whether it wishes to make any comments to the Cabinet to aid its future consideration of the Non-Operational Property review and accompanying proposals.

MIKE DAVIES

Head of Service, Scrutiny Performance and Improvement

11 April 2013

Land & Buildings Programme

Strategic Review of Non-Operational estate

Charles Coats
Corporate Property and Estates Manager

- Background
- Financial information
- Options
- Conclusions
- Recommendations



Background

Reasons for review, to:

- “Determine the rationale for the Council’s interest in and to assess the management of non-operational property.”
- Collate and analyse all available information to inform policy development.
- Develop a long term implementation plan.



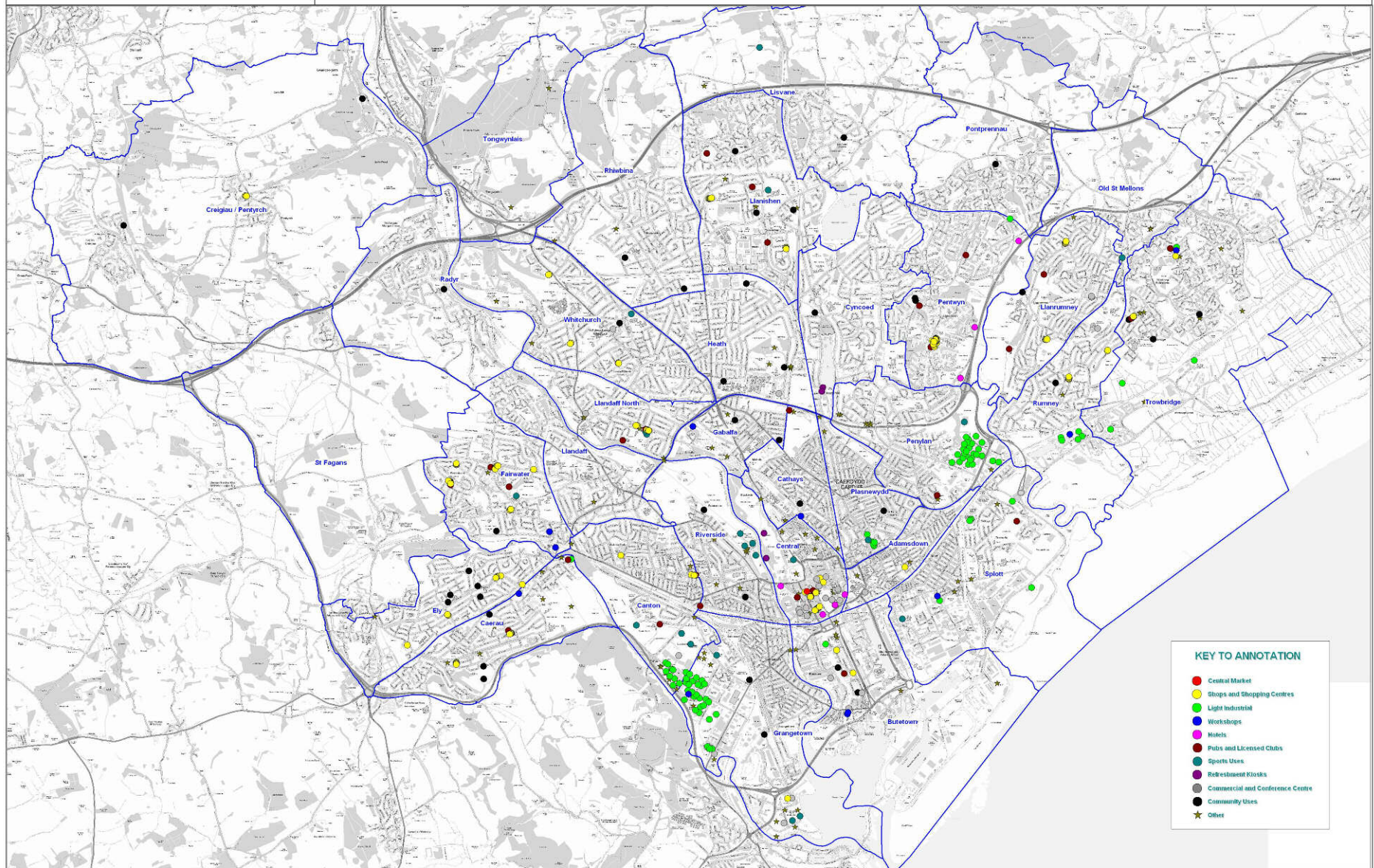
Background

What is Non-Operational Property?

- Property the Council owns but does not occupy itself or run a Service from.

Comprises 9 categories of Property	No. of Properties
– Industrial Workshops	9 Estates (148 units)
– Retail Units let at market rent (Rack Rent)	91
– Retail Units let on ground rent	66
– Commercial Properties	19
– Public Houses	28
– Hotels	7
– Industrial Ground Leases	100
– Community Buildings	55
– Cardiff Central Market	253 stalls (63 tenants)

- Various lease types, terms and basis for Council ownership.



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Revisions (if applicable)



CARDIFF COUNCIL



Drawn by	MWS	Date	22/5/12	Scale
File / Pathname				
Proptinfo2 - NonOp Review 2012				

Drawing No.	1				
Revision / Date					



Financial Information

Summary of Financial Information						
	Gross Rental Income	Outgoings including staff time	Maintenance Backlog	DDA Works Required	Asset Value	Net Yield %
Industrial Workshops	£573,172	£226,957	£351,100	£121,284	£5,390,676	6.4
Retail Units at Market Rent	£584,060	£245,069	£900,400	£108,116	£7,059,748	4.8
Retail Units at Ground Rent	£57,844	£19,172	N/A*	N/A*	£1,032,762	3.7
Commercial	£791,484	£5,519	N/A*	N/A*	£12,656,920	6.2
Public Houses	£368,290	£8,424	N/A*	N/A*	£5,513,912	6.5
Hotels	£252,243	£2,324	N/A*	N/A*	£3,625,415	6.9
Industrial Ground Leases	£872,548	£29,630	N/A*	N/A*	£10,091,135	8.4
Communities	£145,654	£15,977	N/A*	N/A*	£3,135,669	4.1
Central Market	£190,621	£47,040	£176,100	£4,523	£2,300,796	6.2
TOTALS	£3,835,916	£600,112	£1,427,600	£233,923	£50,807,033	6.4

*Tenants responsibility

Options

1. **The “Status Quo” – No Change**
2. **Expansion of Estate**
 - Judicious acquisitions based on an examination of best performing properties drawing on a process of gap analysis.
3. **“Rationalisation of Estate with capital receipts ring fenced for regeneration and modernisation of the retained estate subject to prevailing capital programme pressures and competing priorities.”**
 - Available capital receipts received to be reinvested in the estate in line with current regeneration policies and to allow for additional regeneration opportunities to be developed
4. **“Rationalisation of Estate to realise capital receipts for corporate reuse”**
 - Any monies obtained through the sale of property will be absorbed into the general fund and will not be reused specifically for modernising or refurbishing retained properties.

Both Option 3 & 4 can be pursued either:

- a) **Reactively:** The Council awaits expressions of interest and for opportunities to arise through expiring leases
- b) **Proactively:** The Council actively pursues disposal initiatives, approaching sitting tenants or marketing as investment opportunities

Conclusions

- A large, dispersed and extensive portfolio
- Properties fulfil a socio-economic, employment and financial function
- Currently no long term vision or cogent management strategy.
- Parts of the estate would benefit from reinvestment and modernisation



Recommendations

- ***Option 3: Proactive rationalisation of the Estate with priority being given to capital receipts arising from disposal being ring fenced for modernisation and regeneration of the retained estate subject to prevailing capital programme pressures and priorities.***
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- The following considerations influence this recommendation:
 - Not all properties fully contribute to the Council's employment and broader socio-economic goals
 - Many are held for historical reasons; some of which are no longer relevant
 - in some cases Council ownership can act as a blocker to development
 - The estate has a large maintenance backlog; addressing this would improve the overall quality of the portfolio, its income and the quality of tenants.
 - On many estates where the Council has an interest for strategic, socio economic and community reasons, properties are underperforming.

Recommendations

For each individual estate (1):

- **Workshops:** Majority to be retained, but select estates made available for disposal with poorest performing sites refurbished from receipts arising from the sale of other estates.
- NB This part of the portfolio will now be subject to separate review
- **Shopping Parades (RR):** Where the Council owns entire parades, regeneration programmes to continue subject to review of development opportunities. Stand alone shops to be disposed of when best opportunity arises
- **Shopping Parades (GR):** Ground rent shops to be disposed of when best opportunity arises unless they form part of a larger rack rented parade.
- **Commercial:** A minority of strategically important ground rent properties to be retained. Other properties within this category to be disposed of.

Recommendations

For each individual estate (2):

- **Public Houses & Licensed Clubs:** To be retained unless there is prospect of redevelopment. Leases to be re-gearred to market rental value when best opportunity arises
- **Hotels:** Ground rents at 3 city centre hotels that have strategic importance to be retained with the other 5 disposed of when best opportunity arises
- **Industrial Ground Lease:** Fragmented sites to be disposed of when best opportunity arises. Leases on retained sites to be re-gearred to more modern terms
- **Community Buildings:** New financial procedures to be introduced to improve financial transparency. Community Asset Transfer initiatives to be progressed in accordance with current Council policy.
- **Central Market:** To be retained and modernised on a self financing basis.

Outcomes and Benefits

- Streamlined, proactively managed estates.
- Increased revenue from retained properties.
- Better quality properties, delivering better services, attracting higher calibre tenants.
- Significant capital receipts realised from sales.
- A cogent, transparent policy and rationale to inform future management.



Next Steps

- Development of a Stakeholder consultation and communication plan
- Extensive Stakeholder consultation
- Site by Site review in accordance with approved strategy
- Preparation of detailed long term implementation plan.



