
PROPERTY UPDATE

Reason for the Report

1. To give the Committee the opportunity to consider progress in developing a Property Strategy.

Background

2. The Committee has a long-standing interest in the management of the Council's estate, which comprises both operational property, from which the Council operates and delivers services, and non-operational property, which is often let for commercial return or to promote local employment, small businesses and the economic regeneration of local areas. The Council's operational estate falls under the Corporate Services and Performance Portfolio, while the Council's non-operational property falls under the Portfolio of the Leader.
3. The Welsh Local Government Association's Peer Review of Cardiff Council, which reported in September 2013, identified issues with the management of the Council's estate, commenting that:

“There should be an urgent review of assets. The current property holdings of the Council are extensive. There are plans to make this more efficient, but there did not seem to be the urgency that might be expected in interviews with Officers. This programme offers short term revenue savings and longer term capital receipts. Officers spoke of ambitious targets, but were less confident that they would get the investment funds to realise the savings. There is an urgent need for a business case to be presented to Members not only dealing with the current position but also

showing options relating to the probable workforce requirements at the end of the 3 year planning horizon or even longer if the scale of reductions in headcount is expected to continue.”¹

4. When the Committee considered the draft Economic Development Delivery Plan at its 3 June 2014 meeting, the Director and Cabinet Members indicated that a Property Paving report was scheduled to go before the Cabinet for approval in July 2014, followed by a full Property Strategy in autumn 2014. Given the Committee’s ongoing interest in the subject, Members agreed to schedule a scrutiny of both papers. The draft Property Paving report has not yet been finalised, but witnesses have been invited to attend the meeting to give the Committee an update on progress to date.

Issues

5. 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.
6. 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 as social and sustainability impact, in the management of their estate.

¹ p29, WLGA Peer Review of Cardiff Council, available on Cardiff Council’s website at: https://formerly.cardiff.gov.uk/objview.asp?object_id=27249

7. 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 Policy Review and Performance Scrutiny Committee in December 2010.
8. The former Executive also established a Land & Buildings programme under the then Transformation Portfolio, which the Committee considered at various points subsequently.² The Programme included projects to consider the Council's:
- Non-Operational Property,
 - Operational Asset Management planning
 - Rationalisation of the Council's Office Accommodation (also known as 'Our Space').

Previous Scrutiny

9. During this administration, the Committee has considered several items relating to the Council's management of its property portfolio, as follows.

Previous Scrutiny - Non Operational Property Review

10. The Non-Operational Property Review was established to determine a rationale for the Council's interest in non-operational property and assess its management. The project aimed to:
- Determine the rationale for the Council retaining its interest in this portfolio property;
 - Collate and analyse available information to inform policy development;

² Members may wish to refer particularly to the Committee's consideration of the overall Land & Buildings programme in July 2011 for further details of these projects. Papers are available on the Council's website at: https://formerly.cardiff.gov.uk/objview.asp?object_id=20271

- 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.

11. An analysis concluded of the Council's non-operational estate as at April 2012 showed that this estate comprised over 700 units under a variety of lease types and terms.

12. This Committee received an update on the Review in April 2013.³ Overleaf, Members will find a summary of the financial information compiled during the Non-Operational Property Review as presented in April 2013. The percentage net yield achieved from these properties varied 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.

13. Copies of the former Chair's letter to the then Cabinet Member for Finance, Business and the Local Economy following the meeting, and his response, are attached at **Appendix A**. When the Committee was presented with details of progress at that stage, Members were particularly concerned to highlight the urgency with which the Council's property estate should be addressed. The Committee also recommended that a strong rationale and vision should be developed for the use of the estate in future and that due consideration should be given to its potential social and community benefits, as well as to potential financial benefits.

^{3 3} Full papers for the meeting, including officers' presentation are available on the Cardiff Council website at: https://formerly.cardiff.gov.uk/objview.asp?object_id=25848

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

Previous Scrutiny – Public Sector Asset Management

14. In January 2014, the Committee received a copy of the report of the Cardiff Partnership Board Scrutiny Panel entitled ‘Public Sector Asset Management – the Role of the Cardiff Partnership Board in Improving Management of the Public Estate’.⁴ The report set out a number of key findings and recommendations around the need for an asset management strategy which could be owned by all Cardiff Partnership Board organisations. A copy of the recommendations is attached at **Appendix B**. The Committee commended this report to the Cabinet.

Previous Scrutiny – Economic Development Directorate Plan and Organisational Change

15. In May 2014, the Committee considered proposals to establish a three year programme of Organisational Change. This included the proposal to establish an Assets/ Infrastructure Programme, led by the Director for Economic Development, under which would sit a Modernising Estate workstream with projects to address the Operational Estate and Non-Operational Buildings.

16. The Organisational Change report approved by the Cabinet on 15 May 2014 set out the following rationale for the Assets/Infrastructure programme:

“The Council’s operational estate has an important role to play in supporting the Council’s transition into a modern fit-for-purpose organisation. A new and efficient estate will reduce costs and improve staff morale and citizen satisfaction. An accelerated programme of rationalisation and modernisation will be delivered based around an improved clustering of Council and partner services. This will also involve maximising the potential of an upgraded schools estate as the focus for the delivery of a wider range of public services. Improving the performance of the Council’s non-operational estate is another important aspect of this agenda. This will involve a review of poor performing property to ensure capital investment is prioritised towards property with the greatest potential to generate improved yields;

⁴ A copy of the report is available on the Council’s website: <https://www.cardiff.gov.uk/ENG/Your-Council/Councillors-and-meetings/Scrutiny/Scrutiny-reports/Pages/default.aspx>

and to identify the appropriate property to be prioritised for release, either to support community development or to generate a capital receipt.”

17. The Cabinet report defined the measures of success for the Modernising Estate work stream of the Programme as follows:

- Reduced cost of the operational estate
- Reduced maintenance backlog
- Increased yield from the non-operational estate
- Higher levels of customer satisfaction (internal and external).

18. The Economic Development Directorate Delivery Plan, which the Committee considered at its last meeting in June 2014, set out further details in terms of plans to bring together a Property Strategy comprising Non-Operational, Operational, Public Sector Property Collaboration elements and to develop a Property Management Improvement System.

Way forward

19. The Leader, Councillor Phil Bale, has been invited as his portfolio includes the Council’s non-operational/investment portfolio. The Cabinet Member for Corporate Services and Performance, Councillor Graham Hinchey, has also been invited to attend as his portfolio includes the Council’s operational property. Neil Hanratty, Director for Economic Development and Charles Coats, Corporate and Property Estates Manager will be in attendance to answer Members’ questions.

Legal Implications

20. 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 of 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 on 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

21. 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

22. The Committee is recommended to:

- i. consider the information presented to them; and
- ii. decide whether it wishes to make any recommendations to the Cabinet.

MARIE ROSENTHAL

County Clerk and Monitoring Officer

25 June 2014

My Ref: T: Scrutiny/PRAP/Comm Papers/Correspondence

Date: 30 April 2013

Councillor Russell Goodway
Cabinet Member - Finance, Business & the Local Economy
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Dear Councillor Goodway,

POLICY REVIEW AND PERFORMANCE SCRUTINY COMMITTEE: 17 APRIL 2013 NON-OPERATIONAL PROPERTY REVIEW

Following the Committee's consideration of the review of the Council's non-operational estate, Committee Members have asked me to relay the following concerns to you.

Members were very disappointed that you did not attend the meeting, feeling that your input in terms of the Cabinet's view was vital. While Members found the information presented by officers interesting, we were concerned that there seemed to be no vision or strategic direction for the use of the Council's non-operational property. The presentation given to the Committee included some quite specific officer options and recommendations for proceeding, but without an apparent aspiration or rationale having been set down by the Cabinet. For example, the recommendation to retain three city centre hotels while disposing of the others.

In the light of the Wales Audit Office's comments in recent years that public sector bodies should improve the way in which they manage their estates, it is imperative that a clear plan for the management of the Council's non-operational estate is put in place as soon as possible. The Committee has been concerned that this item has featured on the Cabinet's forward plan on a rolling basis for several months without being presented. This has made it extremely difficult for an effective scrutiny to be planned. Sufficient notice of a scrutiny item is important in order to meet the requirement of the Local Government (Wales) Measure 2011 in terms of public engagement. The delay may also have resulted in an increase in the Council's maintenance backlog. We therefore hope that you will ensure that it is on the Cabinet agenda in the near future.

In terms of the content of the Review, we were concerned that there was undue emphasis on the financial benefits of the Council's non-operational estate. Sufficient regard should be given to the potential social, community and economic benefits of either managing this estate more effectively within Council ownership or of disposal. Members were partly reassured by officers' comments that due regard is given through the Asset Management process to potential alternative Council uses of non-operational land and buildings prior to their disposal. We seek your assurance that future Council requirements and other possible benefits will be given sufficient weight against the potential monetary value when disposals are considered. It was noted that any disposal of land would need consultation with ward Members first. Any disposals valued above £1 million would need Cabinet approval. It was also noted that the Council's estate was currently providing a return of 6.4%.



Members welcomed officers' comments that they are seeking to obtain information regarding the performance of our non-operational estate as compared to other Core Cities, in particular Bristol and Sheffield. We noted that very explicit performance measures must be developed in order to allow a useful comparison.

While Members welcome the opportunity to contribute to policy development at an early stage, they do not feel that this is a substitute for full pre-decision scrutiny of a Cabinet report. All members of the Committee ask you to come before the Policy Review and Performance Scrutiny Committee together with the comprehensive and substantive draft report for the non-operational property review before it is submitted to Cabinet to enable this to take place. We noted the Corporate Chief Officer for Corporate Services' comments that the report would not be presented to May Cabinet, but that it may be presented in June. As the Committee intends to invite external witnesses to attend in order to aid their consideration, I would be grateful if you would confirm the timing of this item as soon as possible. If it is due to go to the June 2013 Cabinet, please could you let us know by 15 May so that we can plan its effective scrutiny.

We would ask that, prior to this, the Non-Operational Property Review is amended to include:

- A strategic vision for the use and management of the Council's non-operational property;
- A clear statement of the Council's intention to use this estate for social, community and economic advantage as well as for financial gain;
- Data permitting comparison of the performance of Cardiff against other councils and of other councils' governance processes regarding their non-operational property;
- A clear communication strategy for current tenants of these properties;
- Details of the asset management process, so that it is transparent where decisions about the disposal of land and buildings will be made and upon what basis.

Finally, given the planned additional review of Council-owned workshops and as the Committee believes that the potential economic potential of non-operational sites should be taken more strongly into consideration, I am copying this letter to the Chair of the Economy & Culture Scrutiny Committee as he may wish to take this issue into account in that Committee's 2013/14 work programme.

I would be grateful if you would ensure that the Committee's comments are responded to as appropriate. I look forward to welcoming you to the Committee in the near future.

Yours sincerely,



COUNCILLOR ELIZABETH CLARK
CHAIR, POLICY REVIEW AND PERFORMANCE SCRUTINY COMMITTEE

cc Christine Salter, Corporate Chief Officer (Corporate)
Charles Coats, Corporate Property & Estates Manager
Joanne Watkins, Cabinet Office Manager
Members of the Policy Review & Performance Scrutiny Committee
Councillor Craig Williams, Chair Economy & Culture Scrutiny Committee

County Councillor Russell Goodway
Cabinet Member for Finance, Business & Local Economy



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17 May 2013

Councillor Elizabeth Clark
Chair Policy Review & Performance Scrutiny
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Dear Elizabeth

POLICY REVIEW & PERFORMANCE SCRUTINY COMMITTEE: 17 APRIL 2013
NON-OPERATIONAL PROPERTY REVIEW

I refer to your letter of 30 April 2013 in relation to your Committee's consideration of the above matter at its meeting on 17 April 2013. I regret that I was unable to attend but unfortunately I was engaged on other Council business which too longer to deal with than originally anticipated.

I am sorry that the Committee was unable to have sight of the of the full draft report prior to the meeting but until it is in a final form it would be unwise to place it in the public domain. I have no doubt that when it is available it will serve to address many of the concerns that your colleagues expressed at the meeting.

I am sorry to learn that your colleagues feel that there is a lack of vision with regard to the future direction of this element of the Council's estate. I am confident that there is a clear rationale behind the set of proposals that are currently being developed but, maybe, this needs to be made more explicit. I have, therefore, asked officials to work with me to develop a specific section in the report setting out a clear vision for the future utilisation of these important assets which will also reflect the social, community, and economic benefits of the estate.

Your letter also makes reference to the benefits of adherence to the Council's asset management planning processes and procedures, which I have noted.

The report has been competing with other priority matters for Cabinet time for some months. Unfortunately, competing priorities have prevented its earlier consideration. Having said that, a further, more in depth, review of the Workshop Estate is about to commence and it maybe that it will make more sense to bring these two strands of work together. I will be discussing these issues with my officials in the near future and the outcome of those discussions will dictate when it would be appropriate for this whole issue to be brought forward for Cabinet consideration.

/cont...

Please Reply To:

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17 May 2013

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Councillor Elizabeth Clark

I note your request for a further presentation of the final substantive report to the committee prior to its consideration by Cabinet. I will certainly reflect on your request at the appropriate time.

Yours truly

Russell

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