



**Northamptonshire
County Council**

Strategy for the County Property Estate

2018-19



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1. Introduction

Northamptonshire County Council is concentrating on the demands of financial pressures in the public sector, resulting from reductions in funding and increasing demands on its services.

Management of the Council's Property portfolio to 2017 was centred on four key outcomes:

- **Assertive rationalisation of the corporate office estate**, culminating in the development of two hub office bases at One Angel Square and William Knibb, to replace a number of smaller office locations.
- **Realisation of Revenue savings**, by deferring maintenance which has led to a progressive degradation of property condition and which will need to be reviewed to enable the assurance of business continuity.
- **Realisation of Capital Receipts**, the capital receipt targets for 2017-18 has been set at £21.5 million with 2018-19 set at £29.5m
- **Bringing forward the Council's Strategic Landholdings** to provide a pipeline of opportunities for the longer term capital and revenue requirements.

Drawing on these successes, the Strategy now needs to respond to the changing landscape of service provision; where delivery is commissioned through a range of contractual and partnership arrangements, and recognise the importance of the property portfolio in minimising revenue expenditure and generating both revenue and capital opportunities

The Council has moved towards a Corporate Landlord Approach to the management of its estate and the restructure to centralise services and responsibility for Asset Management and Capital Strategy in the Place Directorate has facilitated the roll out of this model.

A comprehensive review of the performance and make-up of the estate has been undertaken, with a strong move to further implementation of outcomes in 2018-19.



2. Background

Policy Drivers

The County Council Capital Strategy for the period provides the context for this document. It looks to:

- Ensure capital expenditure contributes to the achievement of the Council's strategic aims and objectives.
- Deliver a capital programme that is affordable and sustainable.
- Maximise the use of resources and deliver Value for Money (VFM).
- Provide a clear framework for decisions relating to capital expenditure.
- Establish a corporate approach to generating capital resources through the review of surplus property and land and availability of funding.
- Acquire and retain access to sufficient long term assets to provide services to the people of Northamptonshire.
- Encourage Invest to Save (I2S) initiatives to make efficiencies within the Council's revenue budget.
- Ensure that all investment decisions are based on a robust appraisal process, including the evaluation of VFM, affordability and risk.
- View ownership of long term assets as a means to an end, not an end in itself.

MTFP

A further key driver for the Strategy is the delivery of financial revenue savings set out in the Medium Term Financial Plan (MTFP) for 2017-18 which equate to a total of £2m from property budgets. The potential for delivering these savings has been explored, predicated on the Strategy outlined above, but further opportunities for savings are needed to deliver the targets. Future years MTFP proposals have reflected any savings which have been identified as undeliverable.

Capital Disposals/Receipts

The Council's ability to support capital investment is dependent on achieving capital receipts. Capital receipts provide an important funding stream to enable the Council's Capital Programme to be supported over the plan period. The underlying capital disposals forecast underpins the affordability of the Council's direct discretionary investment.

Strategic Land Holdings (SLH) are a substantial area of Council controlled asset ownership which provide ongoing opportunities to bring forward for development. The need to secure appropriate infrastructure and receipts from the sale of strategic land holdings, versus alternate delivery options, will be a key element for review within the plan.

The Council has earmarked an Asset Utilisation Reserve to provide the upfront financial investment to enable the consolidation and rationalisation of its property

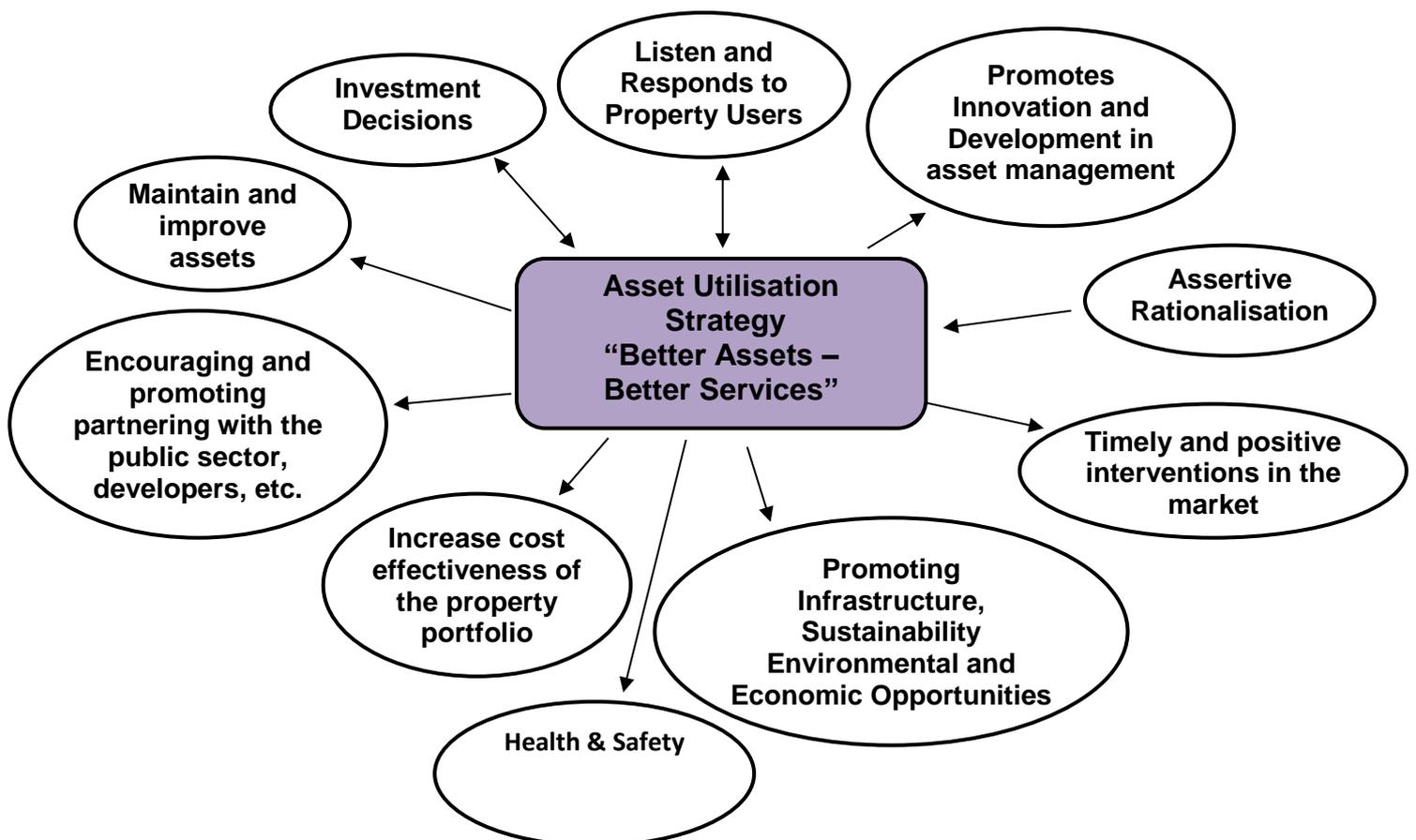
portfolio. This includes funding the early stages of site preparation and pre-disposal costs to enable time to market to be reduced.

Following the announcement of SR 2015 allowing local authorities to use capital receipts to fund the revenue costs of transformation projects, the Council agreed to utilise the vast majority of its Capital Receipts in 2017-18, to support the move to a Next Generation Council and the revenue implications of this transformation.

There is a discretionary finance cost ceiling of 9%.

Key Business Drivers

The key drivers set out in the Asset Utilisation Strategy in 2013 still apply:





Structural Alignment

The creation of the PLACE directorate and incorporation of Property Services from LGSS provided an opportunity for NCC to review how it meets the needs of the County's residents from its property assets and maximises the financial opportunities from non-operational assets to support service delivery.

The design of the Place and People Directorate structure placed the responsibility for all assets within the Place Directorate. This responsibility includes the management and maintenance of assets, the planning for future provision and the duty to achieve best value through the use of current and future assets.

Federated Model

First for Wellbeing was the first of the federated bodies to be incorporated to provide services on the Council's behalf, from an arms-length company.

The expectation is that generally these federated bodies will not be asset-backed. Properties used in the delivery of these services will, instead, be licenced, to allow occupation. This is an important principle which will allow asset challenge whilst reflecting the delivery outcomes within the service contract.

Where appropriate, from a financial or service delivery perspective, there is scope to examine other models to maximise the success of any federated vehicle. The current agreement with Olympus Care Services is an alternative solution that may be replicated, if appropriate.



3. The Estate

The full property portfolio, including community school property, for which NCC has ultimate legal responsibility, consists of approximately 644 properties. The portfolio can be described with reference to the following main sets of properties:

Office Accommodation

This element represents significant revenue costs (i.e. rent, rates, utilities, facilities management, etc.) totalling approximately £3.16 million per annum.

The Headquarters at One Angel Square allowed the consolidation of 12 Northampton offices into this one building, with the disposal of the surplus stock achieved or planned for early 2018. The opening of the redeveloped William Knibb building in Kettering will allow a similar transformation in the north of the County by the summer 2018. This is a substantial contributor to the required MTFP savings.

Operational Properties

The operational part of the portfolio refers to the approximately 290 properties which are used to accommodate the delivery of operational activity and services. This includes both large purpose built facilities and much smaller properties. Larger purpose built properties include sites such as the large central library in Northampton, and 35 small local libraries and medium sized suburban libraries, local Registration Offices (Births and Deaths), Adult Learning Centres, Care Homes, Youth Centres and Family Centres.

Revenue costs associated with Operational Property are approximately £5.94m per annum. Rationalisation of this estate is likely to make up a large element of the property strategy over the plan period.

Education Estate

There are currently 315 school properties (including PFI) for which NCC holds the freehold and has ultimate legal liability as the owner of the site. The fragmentation of the schools sector into various types of status and the merger of schools under shared governing bodies renders an exact count difficult. The local management of school sites, and the increasing number of Academy schools means that day to day responsibility and liability for land and buildings has increasingly transferred away from the Council.

The County retains the statutory duty to provide sufficient school spaces and current projections, based on population growth, will require the provision of a further 15 schools within the authority's boundaries by 2021.



Non-Operational Properties

“Non-Operational” includes properties ranging from small pieces of land to larger buildings such as 9 Guildhall Road in Northampton. The common feature of non-operational properties is that they are not used by NCC in performing core functions or delivering NCC services.

NCC property revenue expenditure on the non-operational element of the portfolio is a small proportion of the overall spend. However, there are important revenue savings, cost avoidance and capital receipt opportunities in the non-operational part of the portfolio.

Investment Estate (Sub-Category)

This category includes a number of strategic sites which are held for future development or investment, or because the time is not right to bring them forward. These sites provide potential for significant capital and revenue receipts in coming years.

In terms of current revenue generation from this element of the estate, the Council hold very few assets. They are mainly made up of the residue of the former Farms Estate, held for future capital growth, interests in two starter unit estates and some offices leased to partner organisations, let on commercial terms.

A drive to establish a more commercial revenue generating estate commenced in 2017-18 with a budget of £20 million to acquire suitable properties. Emerging steer from Central Government is indicating that investment properties should generally be acquired within the geographical area of the Authority.



4. Corporate Landlord Model

The Asset Utilisation Strategy, over the last four years, has proved successful in maximising the performance and rationalisation of the part of the estate that has fallen within the direct control of the property and asset management functions; mainly the corporate office accommodation.

Those elements of the portfolio which have been under the direct management of services have not yet been the subject to the same level of central challenge and asset review, covering management of budgets, condition, utilisation and compliance.

The Corporate Landlord model is designed to bring an holistic approach to property management that brings control and property intelligence under one roof and seeks to make properly informed decisions on the shape and growth of the estate, based upon full knowledge of both the properties within it and the services carried out there from.

It is expected to bring:

- Efficiency savings from full understanding of asset ownership and asset costs.
- Efficiency savings from staff and contract consolidation.
- Assurance that assets are correctly, legally and safely managed to meet the needs of services.
- Strengthened business relationship with services and partners on property provision and future strategy.
- Strengthened governance for the control, use and income return from assets.
- Total property asset strategy understanding.
- Full understanding of NCC service delivery property requirements and opportunities.
- Full understanding of NCC commissioned/contracted service delivery property requirements and opportunities.
- Engagement with partners, particularly across blue light and health services, to develop wider opportunities for efficiency savings and asset consolidation.
- A long term strategic view of property requirements and the development of business cases.



Property Programme Boards have been established with the two key client groupings of Adult Care, in liaison with NASS, and the Children, Families & Education Directorate and First for Wellbeing portfolio of properties. Oversight to these boards now sits with a combined Property Asset Board chaired by the Chief Executive and with full Director representation. Area Property Reviews have also been established with cross-service representation

Whilst the Corporate Landlord model gives the Council the scope to rationalise its estate, it is recognised that property assets cannot be the primary driver to deliver savings where the properties are used for operational purposes. Such savings can only be delivered if they are policy driven and supported from inception by Cabinet.

Locality Hubs

A series of area reviews which examine the best fit between service delivery and the property estate is being rolled out, with a pilot review centred on Weston Favell and East Northampton. Partner organisations are encouraged to examine their requirements for a hub location that will primarily deal with the locality needs for the County Council and its federated bodies, but also offer the potential for wider access to services.

Establishment of Locality Hubs will be subject to an Invest to Save Business Case to fully establish cashable and non-cashable benefits and level of investment required to ensure that value for money is achieved.

One Angel Square

One Angel Square is now operational and will allow the Council to fully roll out agile working and encourage the concept of a multi-agency hub.

Targets were included in the 2017-18 budget related to opportunities for revenue savings from the building and income. In addition, there is a pressure against the savings due to increased levels of Business Rates that the building will attract over that originally forecast.

Opportunities will be further explored, to include:

- Refinancing the property over an extended term and/or at an increased loan to capital ratio to reduce in year costs and release capital.
- Increase the occupancy of the building with partner organisations (first) to provide an alternate revenue income stream and release other estate.
- Incorporate the building (or parts thereof) into the commercial investment strategy portfolio.



5. Investment Estate Development

Property Services has already demonstrated its ability to manage its small investment estate effectively, achieving substantial capital growth from the development of its Strategic Landholdings and managing its industrial units to give very low vacancy levels, steady rental income and good tenant management.

In order to meet the financial challenges faced by the authority, which require both a steady supply of capital receipts and a self-generating revenue stream, it will be necessary to adopt a different approach to the management and growth of this area of the estate.

The new policy should seek to:

- Development of existing/new properties for best value income, aligned to corporate outcomes where possible.
- Examine potential to extract greater returns from development of existing properties.
- Generate income streams from acquisition or development of commercial properties.

As the first stage of this process, £20 million was allocated in the County Council's budget for the first financial year to fund the first stage acquisitions and set a target of £600,000 increased revenue performance to be delivered out of this estate.

With the emerging position from central Government that investments should be within the area of the acquiring Authority, the most likely vehicle for investment will be distribution warehousing, but within a mixed portfolio, likely to include small retail schemes offices or leisure. The strength of the market has led to an expectation that a blended yield of 7% is an appropriate target rate for the portfolio going forward.

Carter Jonas are retained to provide advice on programme and governance and to acquire suitable investments for the Council.

The market has proven to be challenging and early bids to acquire properties were unsuccessful, partly as a result of investments selling at unexpectedly low initial yields and because the Council had no track record of being able to perform in the market.

The Council has, however, been able to agree to successful purchases and will proceed on the basis of the criteria set out below:



- Portfolio to now be based in Northamptonshire, to allow efficient management of the portfolio and in light of Government steer.
- Spread of risk across a portfolio:
 - Mixed asset classes, likely to be Industrial/Warehousing, Office and Retail.
 - Variable lot sizes.
 - Some purchase prime assets of up to £5 million, supported by smaller lots.
 - Mixed yields are acceptable to give an average of the target rate.

Process and governance is now in place to be able to react to opportunities in a timely and consistent manner.



6. Poorly Performing Assets

There may be properties that the Council holds that are not providing service, or where service delivery is non-statutory, or outside of the immediate aims and objectives of the authority.

These properties may attract some rental income or generate financial returns to the County through business operations or other methods.

In the case of this asset group, it is recommended that a target yield is applied, below which there would be a review as to whether it is appropriate to retain them within the portfolio.

Given that the reasons for holding these assets is not primarily financial, it is recommended that an initial target rate of a 3% yield, is applied to these assets.

7. Community Asset Transfer

In examining underperforming assets it is possible that the use of the building is one which, whilst providing limited financial returns to the Council, nonetheless provides valued facilities to the community. It may be that these properties may be suitable for Community Asset Transfer.

The County Council resolved in 2014 to adopt the Principles of Community Right To Bid in favour of its Community Asset Transfer (CAT) policy.

Since that point there have been some lettings that would have been caught by CAT that have been subject to individual Cabinet papers, but there has been no proactive approach to examining the scope for placing the management of valued community assets into the hands of the most appropriate local level.

A full review of the Community Asset Transfer Programme will take place over the period to ensure that it is fit for purpose and able to assist in changing models of delivery.

8. Linkages to the Capital Programme

In order to ensure the best outcomes for the Council and direct capital resources where most appropriate there will be a greater interaction between the capital disposal targets and capital schemes.

The Major Projects and Capital Programme Board has been established to provide an overarching challenge to the elements of the Capital Programme and Strategy.