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Report of the Strategic Director of Corporate Services to the meeting of Executive to be held on 4th April 2017

BS

Subject:

Progress report on the Property Programme and Council's proposed property investment strategy

Summary statement:

This report sets out the overall progress made by the Property Programme (formerly b-works) to date and on the 2016/17 projects. The report also highlights the future direction of the Property Programme outlining the work plan, investment requirement for 2017/2018 and seeks Executive approval to commence with those plans and to the implementation of the proposed Council's Property Investment Strategy.

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1. SUMMARY

1.1 This report sets out the progress made by the Property Programme (formally b-works), it also outlines the work plan for 2017/2018 and seeks Executive approval to commence with new capital schemes costing £2m. Funding for the schemes has been included in the Council's Capital Investment Plan approved by Full Council in February 2017.

1.2 The report also includes the Council's proposed Property Investment Strategy and seeks Executive approval, in principle, to the proposal to invest in commercial property either for the purpose of economic development or regeneration within the District, or for the purpose of income generation to support the Council's financial pressures, or a mixture of both in line with the Property Investment Strategy.

2. BACKGROUND

2.1 The Property Programme is a ten year 'invest to save' strategy to deliver a well-managed and fit for purpose estate that enables staff to work in a more agile way through New Ways of Working (NWoW). The programme was based on a financial model that generated revenue savings and capital receipts from reducing the Council's operational estate, and then used those savings and capital receipts to improve the Council's retained estate (and the management of it). The programme was agreed by Executive in October 2009.

2.2 The programme has two key areas of activity:

2.1.1 Undertaking 'Spend to Save' projects that result in revenue savings and capital receipts by vacating surplus properties.

- The Strategic Estates Team identifies properties which can be vacated; undertakes the work necessary to vacate/relocate staff, including providing the infrastructure to support the delivery of services in a more agile way, to reduce the amount of office space required, by enabling staff to work flexibly (on a 7/10 workstation/employees ratio) and access documents remotely.

- The Operational Estates Team manages the Council's investment estate, the disposal of Council surplus properties and lease/license agreements as appropriate.

2.1.2 The Facilities Management Team undertakes the work required to improve the quality and management of the retained occupied estate. Essentially by re-investing the revenue savings and capital receipts generated by the 'Invest to Save' elements.

3. OTHER CONSIDERATIONS

3.1 The Programme's outcomes and property sales/re-investment will enable Council staff to work in an agile way through the implementation of NWoW which enables the rationalisation of accommodation and the introduction of mobile and non-territorial working arrangements.

3.2 A prosperous city centre is recognised as key to the regeneration of the district. One of the prime objectives of the Estate Strategy is to increase the Council workforce presence in the city and town centres.

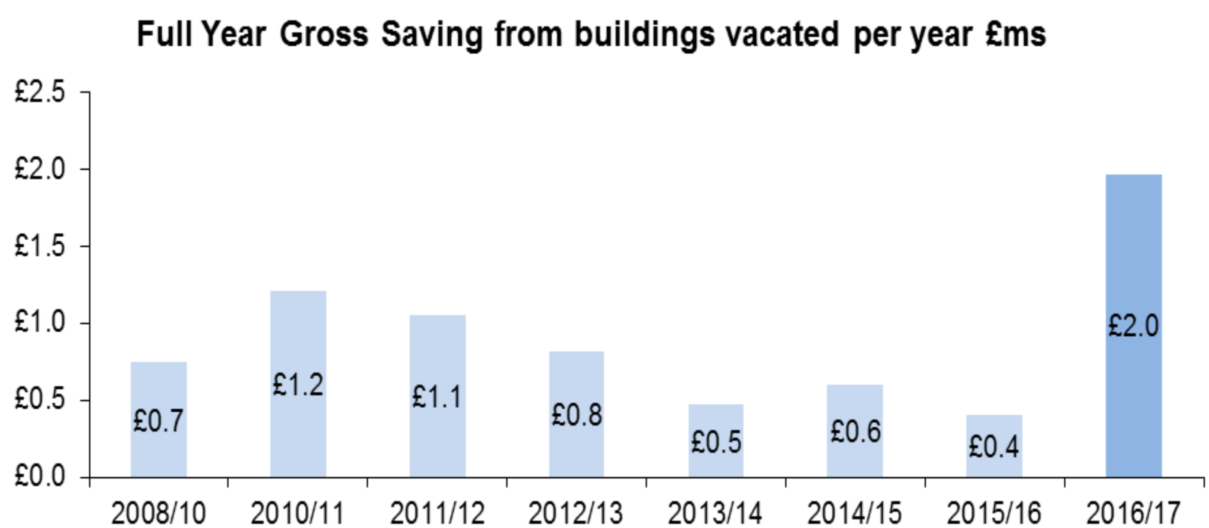
3.3 The Council must continue to address backlog maintenance in its retained estate to minimise any risk to the health and safety of its staff and customers.

3.4 Contribution to regeneration benefits, as the surplus properties disposed of by the Council may be put to alternative uses such as new housing and business creation/expansion.

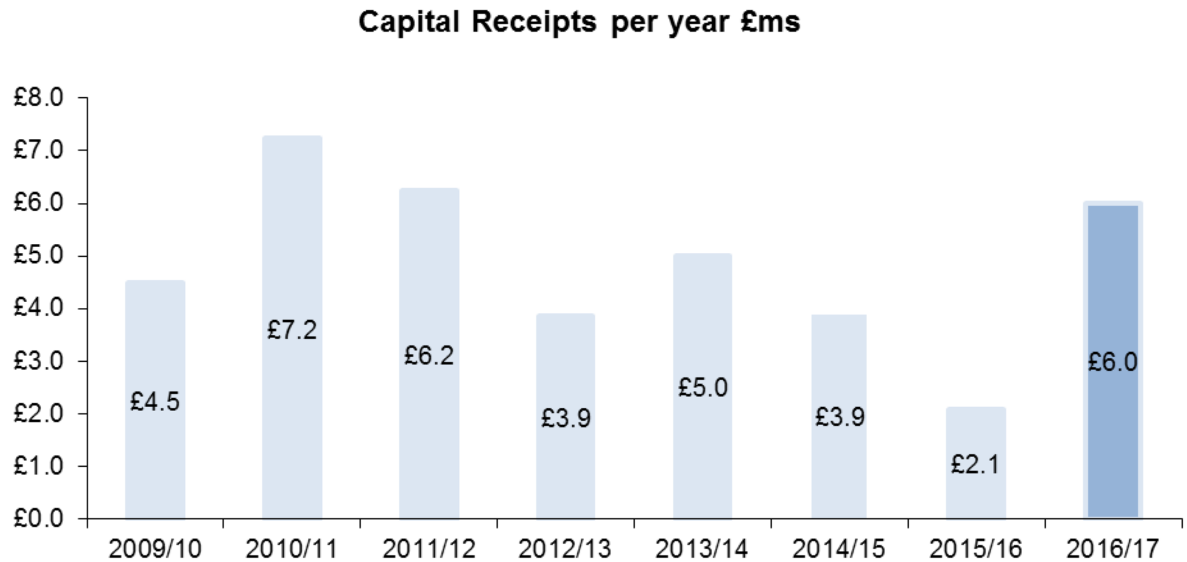
4. <u>Progress to Date – Achieved and Planned to end of 2017-18</u>

4.1 By the end of 2016/17 it is projected that the Programme will have delivered:

4.1.1. £7.3m of on-going per year gross revenue savings from vacating 69 properties. The savings from the start of the Programme to the end of 2016/17 totals £27.2m and will be equivalent to £42m by the end of the Programme in 2018/19.



4.1.2 £39m of capital receipts from disposing of surplus properties. An additional benefit to the district is that many of the surplus properties are subsequently redeveloped by purchasers thus aiding regeneration



- When selling property, Estate Management seeks to maximise the value of capital receipts, and this may include either obtaining planning permission for a site prior to disposal or negotiating joint sale agreements for redevelopment with adjoining land owners.

- In addition to the capital receipts generated for the Council, disposing of properties also results in regeneration benefits as the properties are put to alternative uses such as housing provision or business expansion.

4.1.3 A reduction of over £50million[1] in backlog maintenance through investing in retained premises and disposing of surplus properties. Capital investment has typically targeted Priority 1 works (the highest priority), helping to significantly improve the quality and sustainability of the Councils retained estate. Note: Figures for 2016/17 have not been included within this report and will be shown at the end of year when fully achieved.

	2009/10	2011/12	2013/14	2015/16
Operational Estate 000s m2	311	285	248	223
Non Operational Estate	27	26	26	37
	338	312	274	260
P1 Backlog Maintenance £ms	67	54	31	26
P1-P3 Backlog Maintenance £ms	96	79	59	56
P1 as %age of total	70%	68%	52%	47%

[1] The Programme is also investing in priority works, and vacating other properties in 2016/17 that will take the total reductions above £50m.

4.1.4 Plans to vacate properties such as Richard Dunn Sports Centre, Shearbridge Depot, Harris Street Depot, and Museums' Stores will reduce the backlog further.

4.1.5 Other benefits that the Programme has delivered include:

- Centralisation of the Facilities Management function; implementation of a unified Facilities Management system and investment into a rolling programme of building condition surveys to improve the strategic management of the Council's estate.

- Creating the infrastructure necessary to enable Flexible and Mobile working. This has included:

    - Rolling out a Corporate Electronic Document Management System to services across the Council. The system now has approximately 3,600 users.
    - Providing IT equipment to enable Flexible Working. Approximately 3,000 staff are equipped and trained to be flexible workers enabling service improvement and reductions in the requirement for office accommodation.
    - The creation of a corporate mail, print, scanning and archives service to improve the management and security of information whilst also delivering print and mail efficiencies and reducing the requirement for storage space in other properties.
    - A corporate managed print service to enable users to print securely from any location and improve the quality of the printer estate.

To deliver the above benefits the Programme will have incurred approximately £15.4m of revenue expenditure and £52m of capital expenditure from the start of the Programme in 2009/10 to the end of 2016/17.

5.0 PLANS FOR 2017/2018 AND BEYOND

5.1.1 During 2017/2018, the Programme will continue to complete the rationalisation and consolidation within Britannia House and Argus Chambers. This project has enabled the closure of Jacobs Well generating £0.7m of revenue savings per year as a direct result of this closure and increased the occupation of Britannia House by 100%.

5.1.2 The Programme will continue to progress the proposed £19m Public Sector Hub scheme in Keighley which aims to consolidate a number of Public Sector services into a new development on the North Street site of the former Keighley College. In principal approval has been agreed by the Council and the development will only commence if acceptable agreements can be reached with Public Sector Partners.

5.1.3 Work will continue on the Depot Strategy which seeks to consolidate the Council's depots onto the existing freehold site at Bowling Back Lane, which would enable the vacation and disposal of Shearbridge and Harris Street Depots and the Wakefield Road Depot Tramshed

5.1.4 The Programme has also completed works approved in previous years in 2016/2017 and 2017/2018 including refurbishment works to City Hall roof and structure, and the Shipley Library major refurbishment amongst others.

5.1.6 In addition to the above, Full Council approved expenditure to undertake essential repairs to the Council's estate in February 2017, as detailed below:

5.2 Essential repairs to the Council's estate

5.2.1 The work has been identified as priority and includes 14 operational buildings. A full list of the schemes can be found in (Appendix 1).

5.2.2 The proposed works have been identified using a prioritisation process that has been agreed by the Property Programme. In formulating the process, due regard has been given to the statutory equality requirements. The process takes into account;

1) The condition of the building at the time of the survey relevant to the specific component.

2) The relative importance to the Council of the property, and consequently the standard at which it should be maintained.

3) The perceived future use of the building identified in consultation between the Service and Estates Management.

4) Present building intelligence based on numbers of repairs and other proposed works.

6.0 FUTURE DIRECTION OF THE PROGRAMME

6.1.1 The Council's estate is in a far more sustainable position than it was prior to the Programme's commencement in 2009.

6.1.2 On going work will continue to identify potential building related savings and where essential maintenance works are required. The Programme has been successful in achieving strategic involvement and commitment and it is anticipated that the governance arrangements will continue beyond the profiled 10 year strategy. The resource plan of the Programme is regularly reviewed and is aligned to the work programme as appropriate.

6.1.3 The Estates teams provide pro-active and strategic asset management advice and are essential enablers offering corporate support and strategic functions across the Council.

6.1.4 Given the current unprecedented reductions and financial pressures in public sector funding, it is now more pressing than ever to ensure an effective and holistic use of public assets. The Council needs to ensure it is occupying its assets as efficiently as possible.

6.1.5 These changes have resulted in an increased demand upon Asset & Estate Management services, for example: The number of School Academy conversions; Youth Service review; Children's Services clusters; Adult Services review; Environment & Sport strategic review e.g. Trust status; The Localism Act – Community Asset Transfers; Self Management; Assets of Community Value; and 23 Academy conversions; this list is not exhaustive of the changes requiring property related advice and action. For example, the number of legal instructions issued from Estates has trebled over the last 12 months from 350 to 1,100.

6.1.6 Not all Council owned property is directly managed by Estate Management for example; leisure facilities, parks, community halls and libraries come under the remit of the Department of Environment & Sport. Similarly, not all property related projects are managed or 'owned' by Estate Management e.g. the Sports Facilities project which involves the construction of new facilities is led by Environment and Sport and the Council's Affordable Housing Programme is led by the Housing Service. In such circumstances, Estate Management provides support to services either through the provision of surveying services such as the disposal and acquisition of property, lettings and valuations (Operations Team) or through the provision of programme and project management (Programmes Team).

6.1.7 It is important as an organisation to ensure that there is a holistic and strategic management of the Council's property portfolio, enabling strategic decision making on the use of assets. A process to address this has been implemented through asset reviews and service plans.

6.2 The Objectives of the service are:

6.2.1 To ensure that the Council's operational estate is occupied as efficiently as possible and supports the delivery of good outcomes both now, and in the future:

To deliver capital receipts to support the Council's corporate finances;

To reduce the occupational costs of Council's buildings;

To work with the Third and private sectors to ensure better use of assets to achieve district priorities;

To promote the One Public Estate philosophy to work with third sector/public partners

To achieve service and accommodation synergies;

To support regeneration across the district, including delivery of new housing and economic growth;

To minimise the number and impact of underused, empty and derelict Council owned buildings including listed and other heritage buildings.

To maximise the performance of the Council's investment portfolio, generating additional revenue to support the Council's finances.

6.3 One Public Estate

6.3.1 Bradford became a member of the 'One Public Estate Initiative' (OPEI) in 2013 which is an initiative designed to promote asset management and estate rationalisation across the public sector. Since that date the Estates Team have worked collaboratively with public sector partners to deliver Hubs across the district:

6.3.1a Shipley Town Hall became a public sector hub occupied by the Probation Service, Police, Public Health and In Communities in 2014/5.

6.3.1b Sir Henry Mitchell House has become a 'Safeguarding Hub' with Children's Services, Police and Barnardos sharing occupation 2015/6.

6.3.2 There are many examples of shared accommodation currently, and the mapping of all public sector assets is highlighting opportunities for efficiencies and better integration of services from partnering.

6.3.3 This year joint bids have been made with partners from the 5 authorities and York, as West Yorkshire Combined Authority, coming together to produce combined bids. It was agreed that the bids would follow key themes that were currently priorities for each Authority to maximise impact across the region. As part of the process Bradford has had £180k approved, including £100k for the most recent bid to the OPEI for funding for Health and Social Care projects.

6.3.4 The Bradford project aims to deliver capital assets that are required to address the housing and care needs of older people, to include people with specialist dementia. This project involves, working with partners to address the needs of adults transitioning from health care back into the community.

6.3.5 The project proposes to utilise a redundant 9.8 acre brownfield site for development, the site is the former site of Bronte Middle School, Oakworth Road, Keighley and will deliver 69 extra care flats and a 50 bedded residential unit to include specialist dementia. It is intended that the facility will reduce pressure upon hospital services, with the integration of a number of services onto one site providing support to residents.

6.3.6 The Project is being managed by the Housing team working with Adults Services and supported by Estates.

6.3.7 **Jacobs Well**

Jacobs Well site has been identified as a future Public Sector Hub with development proposals ongoing.

Discussions regarding the future development of the site is continuing. A full report on the progress of the Public Sector Hub on the Jacobs Well site is to follow in December 2017.

6.3.8 Detailed discussions between the principle tenant and Developer regarding the Jacobs Well development are continuing. In respect of the new Public Sector hub, there are currently two options:

a) A demolition of the existing Jacob's Well building and new redevelopment, or

b) A complete refurbishment of the existing building, which would involve stripping back the structure to the floor slabs and columns, re-cladding and re-roofing, with the final outcome dependent upon funding availability determined by the tenant's rental envelope.

If demolition and new build is the preferred solution of the tenant, given the demolition timescales and the likely need to respond quickly to accommodate the tenants' requirements, it is requested that Members approve 'in principle' proposals to demolish the Jacobs Well building at an estimated cost of £500k. The cost would be partly offset by a net business rates saving of £141k[2] per year, with the remainder funded from reserves.

It is proposed that the final decision to demolish Jacob's Well be delegated to the Strategic Director Corporate Services in consultation with the Leader and Portfolio Holder, following further review in due course.

6.4 Community Asset Transfers

6.4.1 The service has received 72 Community Asset Transfer (CAT) applications for 99 assets. Currently 57 CAT's are progressing for 94 assets. The potential to deliver services more efficiently to the community in the localities, through the Third Sector is significant and is supported by the Council, and is an on-going programme, and the potential reduction in occupational costs to the Council is significant.

6.5 Making the Council's investment portfolio work better

6.5.1 This report seeks approval to the Council's proposed Property Investment Strategy (Appendix 2) for acquiring and creating property assets for investment purposes to support the Council's financial pressures for the District. The Council's investment portfolio consists of approximately 603 assets, with a

[2] The Business Rates bill for Jacobs Well was £276k per year in 2015-16 , however as the Council also retains 49% of Business Rates as an income source, the net saving of £141k to the Council is the remaining 51% that gets paid over to central government (50%) and West Yorkshire Fire and Rescue Authoroty (1%).

capital value of £45 million, which generates approximately £2.8M income per annum.

6.5.2 In light of the current financial pressures imposed upon the Council there is a need to improve the quality and scale of the investment portfolio to assist and support the Council's revenue budget. Key to achieving this will be a pro-active approach to the strategic management of the Council's investment portfolio adopting the attitudes of a property company, driving efficiencies, ensuring every opportunity, whether it be physical or legal is exploited to maximise revenue and increase the quality and quantity of the portfolio.

6.5.3 The Council also needs to explore how it can make best use of its land and property portfolio to support delivery of the district priorities and to generate investment income to boost Council revenue. This may be through the acquisition of strategic investments in the district or entering into joint venture agreements to allow third parties to redevelop council properties to create an investment such as a new business park, or to acquire a strategic property which may enable regeneration to proceed and also create an investment to be retained by the Council.

7. OPTIONS

7.1 Note the progress of the Property Programme and approval of the funds for the schemes listed in section 5 of this report. The funding of Capital Expenditure for these schemes has been approved as part of the 2017/2018 budget setting process.

7.2 Approve the principle of the demolition of the Jacobs Well building at an estimated cost of £500k to be offset by the current rates payable of £278,000 which will also remove a dated 1970's buildings form the city centre landscape.

7.3 Approve the Property Investment Strategy and objectives for acquiring property assets for investment purposes contained with Appendix 2.

7.4 Reject the recommendations within the report, however this could have a negative impact upon the ability to achieve economic development and/or regeneration within the district, and/or the ability to increase income generation for the provision of services or a mixture of both.

8. FINANCIAL & RESOURCE APPRAISAL

Please refer to sections 4 and 5

9. RISK MANAGEMENT AND GOVERNANCE ISSUES

Risk management is managed at a programme and project level. This is part of the programme governance and subject to regular review by the programme and projects.

10. LEGAL APPRAISAL

10.1 Legal issues emerging from the programme will be identified and procedures put in place to ensure that all the legal and statutory requirements are complied with.

10.2 Council assets are disposed of in accordance with the Council's approved Property Disposal Protocol. Disposal of Council property assets must comply with Section 123 of the Local Government Act 1972 which prevents the disposal of property assets at less than the best consideration reasonably obtainable without Ministerial consent, although such Ministerial consent is not required by virtue of the General Disposal Consent (England) 2003, provided the Council considers that the disposal will help it to secure the achievement of the promotion or improvement of the economic, social or environmental well-being of its area and so long as the undervalue does not exceed £2m.

10.3 If any of the Council property assets to be disposed of includes land that consists or forms part of an "open space", the Council is required prior to the disposal, to advertise a notice of its intention of the disposal in two consecutive weeks in a newspaper circulating in the area in which the land is situated and to consider any objections to the proposed disposal which may be made to them. There is no prescribed statutory objection period but in practice at least 14 days is usually allowed for objections. "Open Space" is defined by reference to Section 336 of the Town and Country Planning Act 1990 (as amended) and means any land "laid out as a public garden, or used for the purposes of public recreation, or land which is a disused burial ground". However, the grant or an assignment of a lease for a term of less than 7 years in duration is not caught by the requirements of Section 123 of the Local Government Act 1972 and may therefore be disposed of freely at an undervalue.

11. OTHER IMPLICATIONS

11.1 EQUALITY & DIVERSITY

The Property Programme aims to improve the access to and use of Council buildings and services for all.

In planning and implementing this programme attention has been paid to the requirements of the Public Equality Duty set out in Section 149 Equality Act 2010 (the Act). This requires public bodies such as the Council to have due regard to the need to eliminate discrimination, advance equality of opportunity, and foster good relations between different people when carrying out their activities.

Where appropriate Equality Impact Assessments (EIA) have been undertaken to assess the likely or actual adverse impact of any of the proposed schemes of work on people sharing one or more of the protected characteristics set out in the Act (whether these individuals are to be found within the staff employed by the Council or public using the properties in question). This information will be used to eradicate or minimise any potential adverse impact of the proposals on members of one or more groups sharing one or more of the protected characteristics laid down by the Act, who are identified as being at risk through this process.

11.2 SUSTAINABILITY IMPLICATIONS

The increased use/reuse of existing buildings is the most sustainable option for creating an effective property portfolio.

Additionally the maximisation of staff in Britannia House in the city centre provides staff with an existing transport hub and is a more sustainable and accessible location which allows the increased use of public transport.

11.3 GREENHOUSE GAS EMISSIONS IMPACTS

It is an aim of the Strategy to reduce CO2 emissions from the Council's buildings by at least 25%. This will be achieved by reducing the total amount of space required and ensuring that all new and retained buildings are both energy and water efficient. Ensuring the most efficient use of existing buildings in town centre locations has the potential to reduce
greenhouse gases arising from commuter transport by improving proximity to public transport facilities.

The reduction in travel and working from home including the ability to work in a mobile way is reducing unnecessary travel and time. This is also contributing to a reduction of CO2 emissions

11.4 COMMUNITY SAFETY IMPLICATIONS

Well maintained and accessible Council buildings will help in creating pride in localities and community wellbeing.

11.5 HUMAN RIGHTS ACT

Accessible buildings by all members of the community have formed part of the assessment of the suitability of existing buildings and the development of property strategies. The refurbishment and re-provision of buildings will have regard to Community needs and appropriate consultations will take place to ensure that we are aware these and wherever possible adopt good practice.

11.6 TRADE UNION

The Trade Unions will continue to be consulted about the implications of such proposals for employees where appropriate (particularly where staff are to be re-located as a result of the plans outlined in this report or other changes to working conditions are planned).

11.7 WARD IMPLICATIONS

Members are consulted on the sale of property in their wards. Where City Centre buildings, being accessed by the public are likely to be disposed of, all Members of Council will be consulted. In addition where buildings in significant District Centres, accessed by the public, are likely to be disposed of, then all Members of Council in Wards that form part of that parliamentary constituency will be consulted.

11.8 AREA COMMITTEE ACTION PLAN IMPLICATIONS (for reports to Area Committees only)

None

12. NOT FOR PUBLICATION DOCUMENTS

None

13. RECOMMENDATIONS

It is recommended that the Executive:

13.1 Note the progress of the Property Programme.

13.2 Note the approval of the release of £2.0m of funds to allow the Essential Works to the Council’s estate as shown in Appendix 1.

13.3 Note the Future Direction of the Programme.

13.4 Approve £500k for the demolition of Jacobs Well to be funded from reserves and business rates savings. The final decision to demolish to be delegated to the Strategic Director Corporate Services in consultation with the Leader and Portfolio Holder.

13.5 Approve the Investment Strategy as outlined in Section 6 and detailed in Appendix 2, and in particular:

13.5.a Approve in principle, the proposal to make strategic investments in commercial property for either the purpose of economic development/regeneration within the District, or for the purpose of long term income generation to support the council's financial pressures , or a mixture of both in line with the property investment strategy.

13.5.b That delegated authority be granted to the Strategic Director of Corporate Services in consultation with the Portfolio Holder and Leader to make investment acquisitions, on the basis that they are in line with the Investment Strategy.

13.6 That in order to build flexibility into the scheme, the Executive continue to grant the Strategic Director of Corporate Services, in consultation with the Portfolio Holder, powers to make alterations to the programme on the basis that the total spend is below the amount authorised and the work is in line with the objectives of the programme.

13. APPENDICES

Appendix 1 – Essential Works to the Council's Estate
Appendix 2 – Council's Investment Strategy

14. BACKGROUND DOCUMENTS

- Property Programme Progress Report – Corporate Overview and Scrutiny 1st December 2016
- Property Programme Progress and Investment Plan for 2015/2016 Executive Report 8th April 2015
- Property Programme Progress Report – Corporate Overview and Scrutiny 18th December 2014
- Property Programme Progress and Investment Plan for 2014/2015 Executive Report 8th April 2014
- Property Programme Progress and Investment Plan for 2013/2014 Executive Report 5 November 2013 (additional capital requirement for the Homelessness Service)
- Property Programme Progress Report and Investment Plan 2013/2014 Executive Report 7 May 2013
- Land and Property Disposal Policy including Community Asset Transfer Policy Executive Report 4 December 2012
- Changing our Council Property Enabler (formally b-works) progress report and investment plan for 2012/2013 Executive Report 16 March 2012
- b-works – Current progress and future investment requirement Executive Report 15 April 2011
- The Council's Capital Programme for 2010/2011 – 2014/2015 Executive Report 18 and 22 February 2011
- Estate Strategy First Phase Property Review Executive Report 11 February 2011

APPENDIX 1 ESSENTIAL WORKS PROGRAMME

ARN	Prop Name	Ward	Element	Estimate	Brief Description of Works
00455	Britannia House	City	Flat roof	£ 150,000.00	To replace the existing flat roof
00067	Keighley leisure Centre	Keighley Central	Fire	£ 36,000.00	New Alarm Panel
01067	Thompson Court	Bingley	Mech	£ 195,000.00	New boilers and reconfigure pipework.
01067	Thompson Court	Bingley	Electrical	£ 365,000.00	Rewire
00108	St Georges Hall	City	Mech	£ 250,000.00	Ventilation works
00035	Cliffe Castle	Keighley Central	Structural	£ 200,000.00	Façade Repairs
57768	Skyview	Keighley East	windows & Doors	£ 30,000.00	Replace windows doors and cladding
01690	Waste Transfer Station	Bowling & Barkerend	Safety	£ 85,000.00	Replace roller shutters
01012	Meadowlea	Wharfedale		£ 100,000.00	Cladding & Roofing
01712	Keighley Town Hall	Keighley Central	Electrical	£ 275,000.00	Rewire
00064	Ilkley Pool & Lido	Ikley	Roof/Structural	£ 250,000.00	Replace corroded steel and roof
00064	Ilkley Pool & Lido	Ilkley	Mech	£ 40,000.00	Hot water storage vessel
50116	Mitre Court	Bowling & Barkerend	Fire	£ 25,000.00	New Alarm
				£ 2,001,000.00	
	Reserve Schemes				
02136	Bowling pool	Bowling	Mech	£ 145,000.00	
02136	Bowling pool	Bowling	Electrical	£ 240,000.00	
00455	Britannia House	City	Lifts	£ 250,000.00	To replace the passenger lift to the hallings…

APPENDIX 2

Subject: Bradford Council's Property Investment Strategy 2017/2018

Document Owner: Stuart McKinnon
Assistant Director, Estates & Property

Document Author: Ben Middleton
Estate Manager, Estates & Property

1. PURPOSE OF THIS DOCUMENT

1.1 The purpose of this report is to set out the Council's proposed Property Investment Strategy, its objectives and benefits for acquiring and creating strategic property assets for investment and regeneration purposes, to support the Council's financial pressures.

2. INTRODUCTION

2.1 It is proposed in this report that the Council takes a pro-active approach and invests further in commercial property. The Council currently holds a property investment portfolio valued at around £45 million, which generates a net income of £2.8 million per annum. The proposed investment could either be to support economic development or regeneration within the district, or for the purpose of income generation for the provision of services or a mixture of both.

2.2 This report considers the issues that should be taken into account when considering such a strategy and the general approach the Council should take in formulating the strategy.

2.3 It is recognised that further work may be required to complete the strategy and further approvals will be sought to the overall "direction of travel" in connection with this proposal.

2.4 The focus of this report is for investment in commercial property (offices, car parks, industrial, retail, etc.) as a manageable piece of work.

3. BACKGROUND

3.1 Bradford Council has for a number of years taken an enhanced strategic approach to the management and operation of property assets following the mobilisation of the Property Programme in 2009. To date this has concentrated mainly on the operational estate.

3.2 The Council already owns a substantial investment portfolio, currently valued at around £45 million, generating an income stream of circa £2.8 million. The portfolio includes properties such as the Airedale Shopping Centre in Keighley (managed by a head tenant), the Asda supermarket in Shipley, and also a number of smaller individual management intensive properties.

3.3 The Property Investment Strategy forms part of the overall strategic management of the Council's estate and concentrates specifically on the investment portfolio and property investment decisions.

The strategy relates to the acquisition of existing investments and creation of new developments for not only investment purposes but also to aid regeneration.

Adopting a Property Investment Strategy is a long term approach to help mitigate the gap in funding caused by the continuing reductions in Council budgets, to support Council revenues. Many other local authorities have recently adopted this approach, taking advantage of favourable borrowing interest rates from the government. 'Prudential Borrowing' interest rates or long term annuities from the government currently run between sub 1% and 2.45%, and with property investment yields generally ranging between 4.5% - 8%, there is therefore a margin which the local authority may benefit from.

3.4 The Strategy will provide additional revenue, the need for which is more prevalent than ever as the phasing out of Government grants over coming years is applied. In addition to the additional revenue generated, the assets will also increase in capital value in the medium to long term and be capable of re-sale in the future.

3.3 Investment in Property

3.3.1 It is beneficial for a local authority to hold strategic investments within a city or district as in the long term it will not only provide the Council with a positive revenue stream, and capital growth but allow the local authority to influence the future growth and development of the city or district. When assessing the potential benefits of a property acquisition, the authority needs to act like a pension fund/life insurance company, who seek long term safe investment propositions providing both rental and capital growth.

3.3.2 Consideration needs to be given to an investment's location, type of property, security and strength of covenant and yield, ie return on capital invested, and also by way of appreciation of its underlying potential for capital growth. Further detail on this is provided later within the report. Investment in property is normally a medium to long term investment. It is therefore important that any capital invested will not be required in the short or medium term.

3.3.3 In a low interest rate economy, there is a substantial benefit for a local authority to invest in property due to the yield differential, as highlighted earlier, it is possible to use the 'Prudential Borrowing' facility from the government with borrowing rates at sub 1% or borrow by way of an annuity which could be over a term of say 40 years at a fixed interest rate of 2.45%. Therefore if the investment acquired is yielding a return in excess of 5%, the local authority benefits over the length of the lease by the differential between borrowing costs and rental income, and at the end of the borrowing period the council retains 100% of the revenue and from then on has an asset to retain/sell/redevelop.

3.3.4 Investment in property and generating surplus revenues is one of the key financial outcomes to contribute to supporting the Council's finances over the next four years and the target approved at full Council in February 2017, is to deliver a net additional revenue stream of £250k over the next two financial years from investing in property, and it is envisaged this will grow further in succeeding years. It is envisaged that acquisitions will be from retail, industrial and commercial sectors.

3.4 Key considerations when acquiring property as an investment

The key components when the authority is considering acquiring an investment, is location, type/sector of property, security of income stream ie quality/strength of tenant covenant, yield (return on capital) and management of the property. These are looked at in detail below:

3.4.1 **Location** – location of the property is critical to ensure it is an attractive position, so that in the long term it optimises its ability to re-let/re-sell if capital is required, or is strategically located for re-development. The location of the property will ideally enable the Council to be able to undertake inspections and to deal with any management issues without the need to employ specialist agents.

3.4.2 **Covenant Strength** - the quality of the tenant and, more importantly, their ability to pay the rent on time and in full is essential. This is particularly important where the Council has borrowed against the investment, and minimum acceptable financial strength for any given tenant will be determined through a financial appraisal of company accounts and the use of appropriate methods of risk assessment and credit scoring.

It is however worth noting that the Council, as a public body, may not wish to invest in properties where the occupiers are generally seen to be undertaking business which is contrary to its corporate values.

3.4.3 **Lease length** - the unexpired length of the term of the lease is of key importance in ensuring that the landlord's revenue stream is secure and uninterrupted. The Council will take into consideration the risks associated with a tenant vacating and the potential to attract good quality replacements tenants at acceptable rental levels.

3.4.4 **Yield/Rate of return** – is the net rate of return from the property (e.g. through the annual rental income) Prudential Borrowing or acquiring annuities are currently at exceptionally low levels, however, if the cost of borrowing can be fixed over the length of the lease or longer, at substantially less than the property yield, it will generate over the length of the lease an annual revenue surplus to the authority. It is prudent to adopt a theoretical borrowing rate of 4.5%, to ensure that there is sufficient margin between cost of borrowing and income should interest rates rise in the future, and this can be reviewed on an ad hoc basis or special circumstances by way of a further report to Executive in the future. Please note the net yield is the return on capital having taken account of the full cost of acquisition, ie Stamp Duty, legal fees, external valuations and structural surveys.

Different types of investment will provide different levels of return, income and capital. Historic data shows that a 6% income return from property is achievable over the longer term and through a full economic cycle. The Council's current investment estate is attaining an average gross return of 7.8%.

Various factors will affect the level of income return a property investment strategy will deliver over time including;

- the general economic environment (driving rent growth or reductions)
- interest rates (low rates drive prices up and property yields down)
- investment demand (high liquidity drives prices up and property yields down)

3.4.5 **Risk** - return is one side of the coin; risk is the other. In general, the higher the sought level of return from an investment, the higher level of risk that it carries. The intention throughout this policy is to minimise the risk to the Council on any acquisition.

3.4.6 **Cost of management** – The Council currently has an in-house Estates team, which manages the investment estate, and it is proposed that they would manage any additional investments within the existing estates budget. Most modern leases are based upon Full Repairing and Insuring terms (FRI) ie where the tenant is responsible for maintaining the structure and fabric of the building and also insuring the building, so that the estates team role is solely to collect the rental, normally quarterly in advance, ensure that the tenant complies with the lease covenants, including keeping the building in a good state of repair and deal with any rent reviews at the appropriate time.

3.4.7 **Growth** – property investments have the potential for both revenue and capital growth. The Council will take into account that potential when assessing the strength of the investment opportunity. Property values can fall as well as rise and mechanisms to minimise revenue reductions should be identified. Monitoring and review of the portfolio and any anticipated trends, will actively manage and change composition over time. In respect of rental growth – most modern leases are for between 15 and 25 years in length and subject to regular upward only rent reviews and the normal rent review pattern is either reviewed on an every 3 or 5 year cycle, and it is envisaged that the Estates team will undertake the rent reviews.

With the Bank of England interest rates at such historically low levels, even with forecast increases to above 2% per annum, current returns from property investments provides a significant ‘buffer’ for any further increase and means that ultimately any return achieved above 2% will make a positive contribution.

3.4.8 **Sector** - information as to the sector of use of the property (e.g. office, retail, retail warehousing, industrial, and leisure) will assist in deciding on the risks associated with specific properties and the mix of sectors within the portfolio. As the portfolio grows it is healthy to have a spread across the sectors.

3.5 In summary, this proposed strategy for the Council acquiring property investment assets is to:

3.5.1 Acquire properties that provide long term safe revenue streams in accordance with corporate objectives
3.5.2 Maximise rental income and minimise management costs to ensure the best net return is generated whilst minimising risk to the Council.
3.5.3 Promote collaborative working with adjoining owners and Developers to maximise value.
3.5.4 To consider creating investments on council owned land.
3.5.4 Prioritise properties that yield optimal rental growth and stable income

4. THE CURRENT SITUATION

4.1 The Council's existing property assets, termed as the investment estate and considered to be "commercial property investments" are summarised below:

Use	Count	Count %	Income £	Income %	Yield %
Office	23	3.8%	158,633	5.6%	8.4
Industrial	60	10.0%	348,253	12.4%	7.8
Retail	88	14.6%	1,443,573	51.3%	8.3
Commercial Land	32	5.3%	148,287	5.3%	7.3
Agriculture	145	24.0%	174,912	6.2%	4.1
Leisure	60	10.0%	167,120	5.9%	8.0
Car Park	54	9.0%	125,590	4.5%	9.2
*Other	141	23.4%	248,084	8.8%	9.3
	603	**100.0%**	**2,814,452**	**100.0%**	

*Nurseries, Quarries etc.

It should be noted that these have been built up over many years. The agricultural estate in particular dates back to early 1900's.

4.2 Investments could be funded either from the Council's own resources or by taking advantage of its ability to borrow at relatively low rates of interest from the Public Works Loan Board (PWLB) compared to the return on property assets.

4.3 The Council needs to be in a position to assess investment opportunities in a systematic manner with the ability to respond quickly when a compelling opportunity arises to take advantage, particularly as commercial property investment opportunities often arise unexpectedly.

5. FINANCIAL & RESOURCE APPRAISAL

5.1 It is proposed that the Council implement a commercial property investment strategy either for the purpose of economic development or regeneration in the district or for the purpose of income generation for the provision of services or a mixture of both, a key issue for the Council to decide would be the value of the property portfolio and the expected target net yield.

The initial proposal is that a target for investment return would need to generate a net surplus over the next two years in the region of £250k.

5.2 The experience of other local authorities indicates an average yield on commercial property investments of between 5% - 7%.

5.3 As a result of such expenditure being classified as capital and the authority's cash surplus' being utilised to effectively finance the transaction, there will be an increase in the authority's Capital Financing Requirement (CFR) in the year(s) in which the transactions are incurred – and this will be managed through the annual Treasury Management Strategy updates to the Finance & Audit Committee.

5.4 All expenses directly attributable to any purchase, will be in accordance with accounting regulations, charged to the investment fund as part of the cost of acquisition, and will therefore be taken into account as part of the overall evaluation of the property acquisition.

5.5 Investment properties purchased through this strategy will need to be re-valued on a regular basis in accordance with the Code of Practice on Local Authority Accounting.

6.0 Other considerations

6.1 Decision making process – there maybe a need for the Council to be able to respond quickly in the event of a suitable property coming to market.

6.2 When an investment opportunity is identified, the Assistant Director Estates and Property will carry out the due diligence for a potential acquisition in consultation with the Strategic Director, Corporate and the City Solicitor, and will submit a report to the Project Appraisal Group (PAG) for consideration.

As such, an allowance will be made in the annual Council budget to allow for property investment acquisitions to be made, and it is proposed that any decision on acquisition is delegated to the Strategic Director of Corporate Services following consultation with the Leader and Portfolio Holder providing the investment meets the criteria within this report, and is supported as an acquisition by PAG.

6.3 Resources – The purchasing of investment properties will require additional officer resources (finance, legal and property) related not only to the purchase but also to their ongoing management. It is not envisaged that the Council would purchase more than a small number of properties and as such it is anticipated that no additional resources will be required although if e.g. a significant number of properties were to be purchased, or properties were purchased further afield, this could change.

7. RISK MANAGEMENT AND GOVERNANCE ISSUES

7.1 Investing in direct property has the second lowest risk (after bonds) as measured by volatility (standard deviation)

7.2 Risks are outlined in Section 3, Item 3.5.3 of this document.

7.3 Risk management will be managed within the Council's Property Programme as part of the programme and will be subject to regular review by the monthly Programme Board.

8. CONCLUSION

8.1 It is proposed that the Council invests in commercial property investments either for the purpose of economic development or regeneration within the district, or for the purpose of income generation for the provision of services, or a mixture of both and in doing so following the asset investment strategy as detailed in this report.

8.2 Other local authorities are purchasing commercial properties in support of these goals and it does appear there are opportunities to secure good quality commercial property at a level that can generate a worthwhile yield albeit also recognising the risks that are involved in such investments.

9. BACKGROUND DOCUMENTS

None.