

Property Strategy 2018/19– 2023/24

Birmingham City Council

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NB:page numbers to be refined, Images and further spatial representations of portfolios to be included at design stage

Foreword

We have an ambitious agenda for Birmingham, which will see the city's population grow by 150,000 over the next 15 years, with 100,000 new jobs created and over £4 billion of infrastructure delivered.

Our vision is to create a city of inclusive growth where every child, citizen and place matters. We want to make Birmingham: a great city to learn, work and invest in; a great city to grow up in; a great city to age well in; a great city to live in; and for residents to gain maximum benefit from hosting the Commonwealth Games.

As the largest local authority in the country with the biggest property portfolio we have the opportunity to utilise the council's property and land assets in a strategic way to deliver our priorities.

We are already being innovative in how we utilise our property assets to stimulate economic activity, attract investment and create income to support service delivery.

We recently completed the 3,000th home as part of the Birmingham Municipal Housing Trust programme cementing our position as the leading housing deliverer in the City and provider of affordable homes.

The announcement of IM Properties as our development partner for the Peddimore major employment site will see the development of 2.9 million square feet of industrial floor space on a 175 acre site creating up to 10,000 jobs and contributing circa £350 million to the local economy, including £1 million of social value, and meeting high level sustainability targets.

We will be shortly announcing our partner for the delivery of Birmingham Smithfield the redevelopment of a 42 acre site which will create 3.2 million square feet of commercial floor space, 3,000 jobs, £470 million in additional gross value added (GVA) and a £1 billion investment value. This procurement was focussed on social value with a 70%/30% weighting on quality/cost.

The opportunities to utilise our property portfolio to support the achievement of our ambitions for the City are significant and there is more that we can do to harness these assets.

By launching this Property Strategy we are taking a long term strategic approach to how we utilise our unique asset base ensuring we maximise commercial and social returns by re-aligning the City Council's property to act as a catalyst for development and underpin the social fabric of communities across the city.

I am delighted to launch the Birmingham Property Strategy as the next stage to realising our ambitions for Birmingham and support the citizens of this great City.

Ian Ward – Leader of the Council

Waheed Nazir – Corporate Director, Economy

Introduction

The City Council is the single largest owner of property in Birmingham and holds the largest land estate of any UK local authority, extending to 26,000 acres. The Portfolio - excluding residential houses, infrastructure and schools- has an asset value of over £2.4 billion. Income generating assets attract an average of £62 million combined revenue and capital income per annum. There are 6,500 property assets (land and buildings) in the Portfolio and over 330 of these have historic interest.

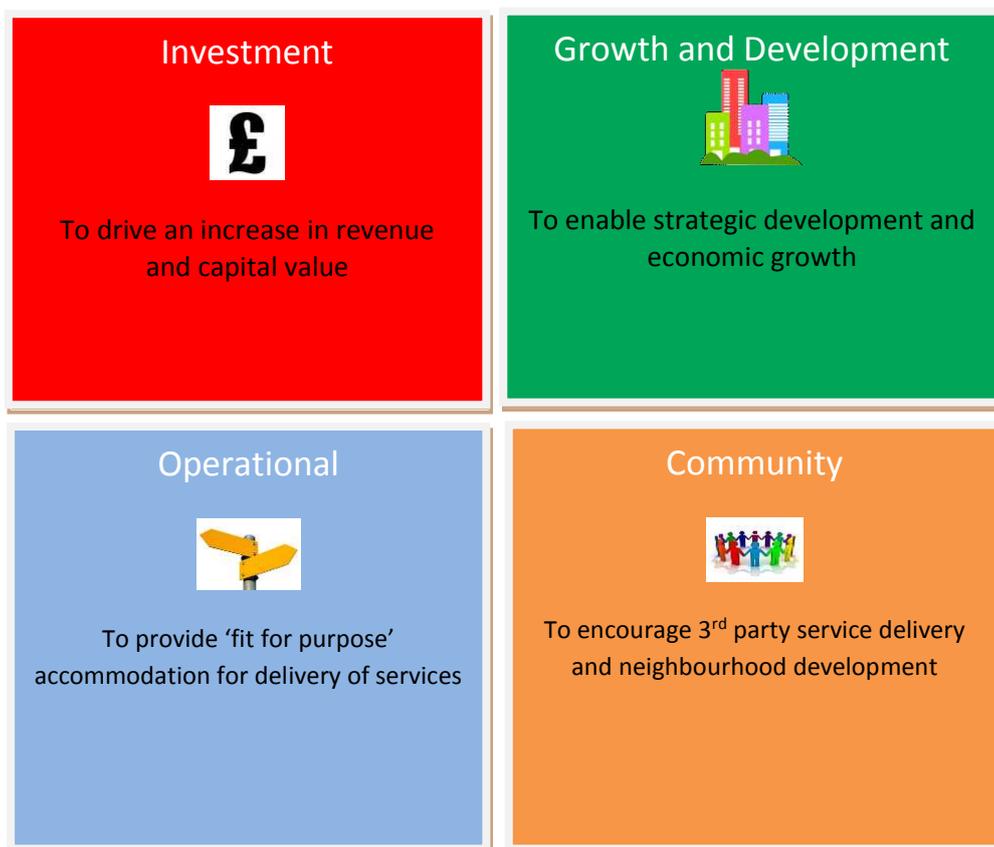
This unique portfolio of assets provides an unrivalled resource base from which to drive forward the city's inclusive growth agenda and deliver a range of priorities for Birmingham and its residents.

The City Council is taking a proactive approach to its overall performance and financial management as a local authority seeking innovative and creative ways to deliver the services for residents and respond to the challenging budget position. The effective utilisation of the City Council's property assets will form a key part of this proactive approach.

Through the Property Strategy the City Council has set out how it will utilise its assets to maximise income, unlock opportunities for growth and deliver social returns. Property market demands fluctuate which makes it imperative the Property Strategy is implemented promptly, otherwise opportunities to secure investment in, for instance, the Industrial assets may be missed.

The Property Strategy will **establish a holistic approach** ensuring a consistent treatment of the City Council's real estate assets is taken. It will focus on **rationalisation** to build a resilient and sustainable portfolio - combining **competitive commercial ambition** with the need to **recognise social value**. It will **respond to the condition of the existing estate** and consider the viability and operational purposes now and into the future. With over 330 assets with historic value it will be vital that the strategy enables **the conservation of heritage** through a programme of maintenance and enhancement. **Compliance with registration requirements** will be vital to ensure that 78% of the City Council's assets are registered on the land registry within 5 year time frame in line with government policy. **Customer Service Excellence principals** will be embedded to enable all staff and representatives of the City Council employed in the delivery of the Property Strategy to be customer focused and implement the City Council's Code of Conduct

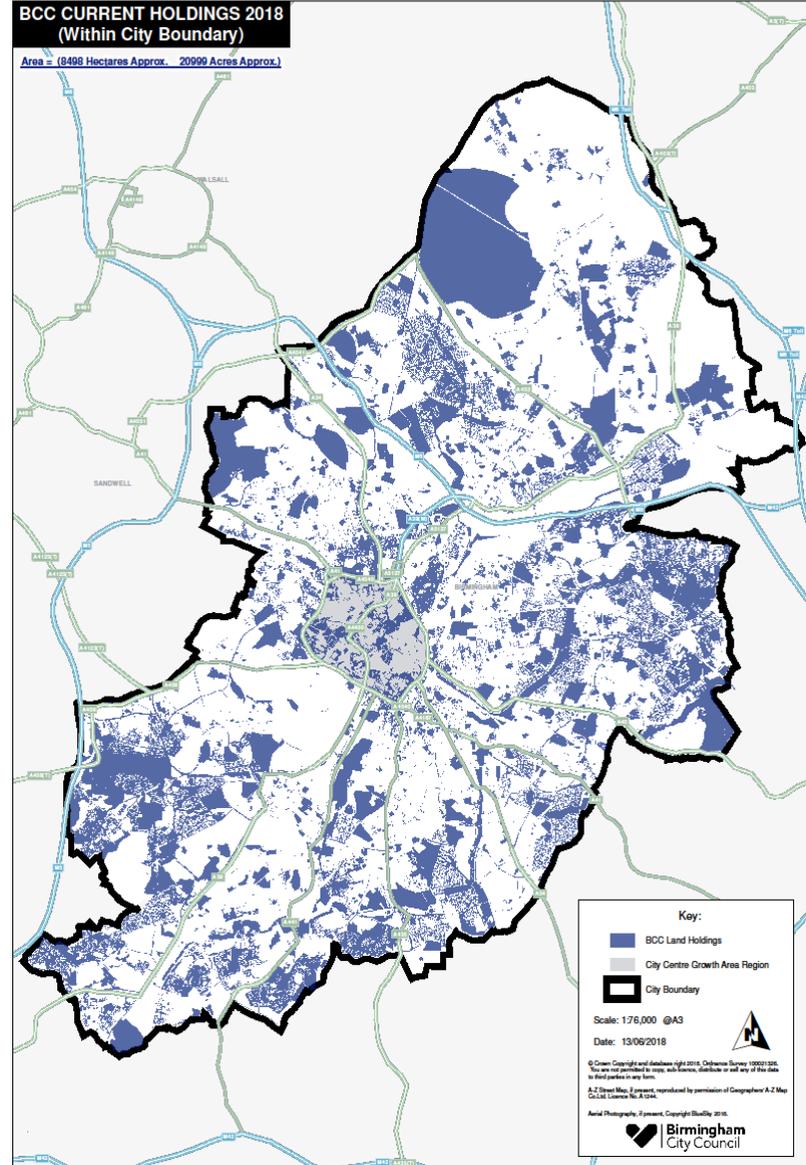
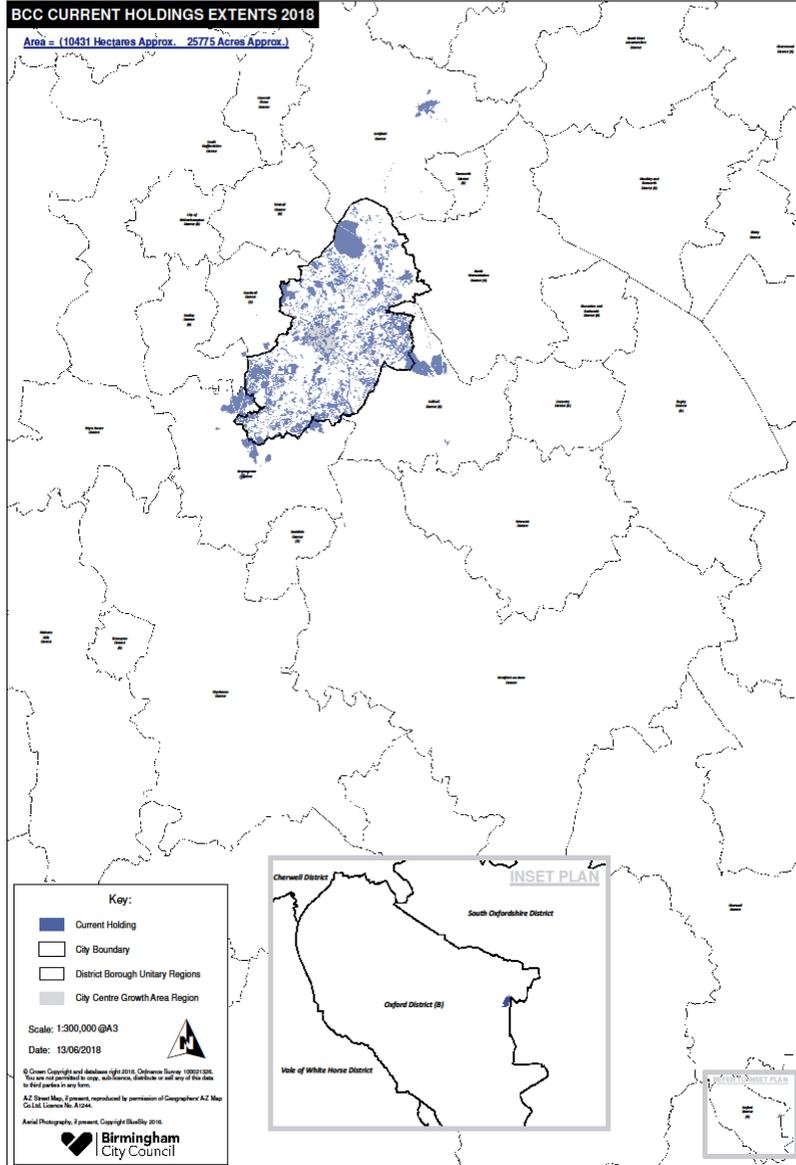
The Property Strategy is structured around four key themes: Investment; Growth and Development; Community; and Operational which set out an approach to guide how assets will be utilised efficiently and effectively to achieve the identified objectives and outputs.



A clear programme for delivery is described including: a new future operating model for staff and resources to manage the property estate, revised governance arrangements, asset reviews and delivery plans. Decisions made with regard to property will respond to ensure the Council's corporate ambitions and outcomes are fully considered and a 'one council' approach is adopted.

The Property Strategy will be aligned to the Council's Capital Strategy in the City Council Plan 2018+ to create an integrated city-wide prioritisation approach to the use of capital resources, including capital receipts from property sales.

The Property Strategy provides guidance to managing all assets directly with the exception of residential houses, transport infrastructure, and schools which are subject to their own Strategies. Implementation of the Property Strategy will take in to consideration the impact on these assets and support their development where appropriate.



Context

Birmingham is the United Kingdom's second largest city. It is recognised for its major role at the forefront of a regional economy worth over £110 billion and with the largest concentration of business activity outside London.

The City is one of the most entrepreneurial and diverse in the UK with a young and growing population. Over one third of the population is under 25, making Birmingham the youngest city in Europe. The city has 4.2 million people of the working age living within a 1 hour drive providing the largest labour pool in the UK.

Birmingham is also one of the best connected locations in the UK and billions are being invested in improving transport including extensions of the Midland Metro Tram network and the arrival of High Speed rail in 2026.

Due to its connectivity and excellent labour potential, the city has seen huge levels of inward investment in recent years. Currently home to a number of major businesses such as Jaguar Land Rover, RBS, PwC and Kraft; all of which have significant headquarter facilities in the region; the City is also seeing major new inward investment highlighted by recent announcements including HSBC, HS2 Ltd., The Government Property Unit (GPU), MG Motors and SCC. Birmingham is the best city in the UK, and the second best in Western Europe for inward investment.

With living costs estimated to be up to 60% lower than in London, the city is benefiting from an influx of talent with an estimated 25,000 professionals relocating to Birmingham between 2013-16, more than any other regional city according to ONS statistics. The city experienced the highest ratio of businesses being created in the UK (ahead of London) with 78,288 new companies started in the five years to 2017.

Home to three major universities, producing over 25,000 graduates every year and a further 20 universities within a 1 hour drive, including three Russell Group Institutions (The University of Birmingham, Warwick and Nottingham Universities) Birmingham has world-leading research and learning capabilities. It holds a position at the forefront of advanced engineering, life sciences and the TMT sectors and in the Greater Birmingham area 6,000 tech firms employ nearly 40,000 people whilst another 3,195 students study tech-related degrees each year in Birmingham.

To support the city's strong business credentials, there is a burgeoning leisure and tourism sector. Birmingham has been voted the most popular destination outside of London for meetings, conferences and events for six successive years. Birmingham is a city of young professionals.

The Birmingham Property Market

The city is experiencing a major revitalisation with its property market buoyant and growing across all sectors. This is set to continue as the City continues to deliver its ambitious growth agenda with 51,000 new homes, 16 million square feet of commercial, leisure and retail space, 1000 acres of employment land and £4 billion infrastructure investment by 2031.

Office Market

Birmingham's ongoing transformation is having a positive impact on the City's office market supporting the business, professional and financial services sector.

Headlines:

- Total built office stock in Birmingham's city centre comprises 17.3 million square feet
- between 2015-18 has seen over 2.8 million square feet of take-up, including 1.1 million square feet of Grade A space,
- Major recent lettings include HMRC / DWP, PwC, WSP and Advanced (the latter two both at the Mailbox), Network Rail, Savills, West Midlands Trains, Regus, Pinsent Masons, RICS and HSBC.
- 2017 marked a record year for Birmingham office take-up, exceeding one million square feet, some 27% higher than the 10-year average.
- At the end of 2017 total available office space stood at just 1.4 million square feet, 8.1% of total office stock and 32% lower than the 5-year average.
- The supply of currently available Grade A office accommodation is just 98,000 square feet, which equates to 0.6% of total stock.
- Prime rents forecast to reach £36.50 per square foot by 2021 from their current level of £33.00 per square foot.
- Investment yields in Birmingham are at 5.00% and have been reducing as a result of increasing investment activity in the city.

Industrial Market

The industrial sector in Birmingham is one of the largest in the UK both in terms of employment and the size of its industrial and warehousing stock supporting the advanced manufacturing sector including automotive industry. The City has also grown in its importance as centre for logistics.

Headlines

- Total stock is over 84.5 million square feet (55% factories and 45% warehouses).
- Major occupiers located in Birmingham include Jaguar Land Rover, Kraft (formerly Cadburys), BMW, Royal Mail, J Sainsbury and DHL.
- In 2017 availability fell by 9.3%, to stand at 3,373,000 square feet. The vacancy rate is estimated at 4.0%.
- In the last five years to Q1 2018 the amount of space pre-let/purpose-built in Birmingham averaged 380,000 square feet per year, or 20% of take up.
Big Sheds (units of over 100,000 square feet) – Over the last five years, they have accounted for 37% of take up.
Standard (units under 100,000 square feet) - Over the last five years to Q1 2018 has been 50,000 to 100,000 square feet sheds, accounting for 23% of all space.
- Birmingham top rents increased by 3.8% over the last year to now stand at £6.75 per square foot at end 2017. This has now above the peak level recorded prior to the Global Financial Crisis.

- In recent years the share of pre-let/purpose built space developed has fallen. The share during 2008 to 2017 of 14% compares to 62% over the period 2002-2007.
- Prime industrial yields stand at 5.0% and 5.3% for large sheds.

Retail and Leisure

Birmingham has experienced a renaissance in its leisure and retail offer. As cities compete to remain attractive destinations for visitors there is a need to evolve the offer and create new experiences. The City Centre is home of the retail core and includes some of the UK's most popular shopping destinations including the Bullring, Grand Central and The Mailbox. Across the city there is a diversity of urban centres and local parades that provide shops, services, offices and leisure opportunities.

Headlines:

- Prime rents for shopping centres have outperformed 2007 levels to reach £400 per square foot (area in terms of zone A) ITZA, while prime high street rents have almost achieved 2007 levels, reaching £285 per square foot ITZA.
- Prime retail yields in Birmingham are at 4.50% as at end 2017.

The Strategy

Vision

Birmingham's Property Strategy will provide a long term strategic approach to the City Council's real estate.

It will maximise commercial and social returns by re-aligning the City Council's property assets, ensuring that they act as a catalyst for development and inclusive economic growth and underpin the social fabric of communities across the city.

The City Council's property assets will become a key driver for Birmingham's future transformation returning greater revenue to fund the delivery of services, supporting the creation of thousands of new homes and jobs and delivering best in class operational building stock for future generations.

To turn this vision in to reality the City Council will take a proactive and joined up approach to the review, rationalisation, improvement and on-going management of its property estate with a view to enhancing local, national and international relationships. The following big moves will be at the heart of this approach

Big Moves

- Drive greater returns - develop an investment property portfolio run on a commercial basis- delivering medium growth in gross income, including inflation, by 2024,
- Catalysts for growth - utilise land and buildings across the portfolio to unlock development and regeneration aligned to the city's key growth areas
- Drive housing delivery - release assets in key locations to support the delivery of 1000's of new homes
- Support communities – encourage a 'Sharing Economy' and 'Capacity Building' through the support of third party organisations to deliver culture, sport, community and neighbourhood activities
- Be operationally efficient - provide a fit for purpose operational property portfolio

Key Portfolio Themes

The city's vision for its property assets and the big moves will be delivered through the creation of four property portfolios aligned with effective governance and management. Through these portfolios the city council will be able to ensure its property assets are used in the most efficient and effective way now and into the future.

- Investment – divided into core asset classes this portfolio will focus on maximising returns to re-invest and deliver greater revenue to support service delivery. This will include the core assets.
- Growth and Development – focusing on key growth areas land and buildings will be utilised as catalysts for development and regeneration to deliver new homes and jobs

- Community – support community organisations to deliver City Council’s core objectives, encouraging independent social cohesion using sport, culture and third sector neighbourhood activities
- Operational – efficient and rationalised buildings to support the provision of modern 21st century council services.

These key portfolios are the framework which will guide how assets will be used to maximise their potential to deliver the City Council’s priorities. Each property asset and interest will be proactively managed with portfolios reviewed throughout the life of an asset to respond to changing local and global objectives and priorities, following planning policies and priority use needs.

Key Portfolio Themes: Objectives and Approaches

Investment Portfolio

Introduction

The Investment Property Portfolio currently holds over 5,900 legal interests, housing over 3,000 Tenants, and generates a significant revenue income for the City Council. In 2017/18 it earned £32 million revenue representing almost 10% of all City Council income from external sources. The potential scale of the investment portfolio, the extent to which it contributes financially to the City Council, and the opportunity it provides to contribute strategically to the economic vitality of the City makes the Investment Portfolio an essential element in the overall Property Strategy.

The current portfolio reflects the City Council's historic accumulation of assets and requires significant investment to create a competitive portfolio in the market place. In addition to the historically acquired underperforming assets, the portfolio currently includes properties which are let for social value in lieu of rent and quasi-statutory lettings. These factors results in 80% of the annual income being derived from only 20% of the interests. The high demand and constricted supply within the market, coupled with very positive investor sentiment will provide the City Council with a range of opportunities to enter into progressive partnerships with developers, investors and occupiers.

There is the opportunity to transform the Investment Portfolio on commercially sound principles and leverage capital to deliver enhanced property stock to continue to attract more high-quality businesses to the city.

Objective

The objective is to create a commercially driven, financially focused 'Investment Property Portfolio' which can respond promptly to property market cycles to deliver the highest returns - whilst still fulfilling the obligations of a Local Authority:

- 1) Deliver medium growth in gross income, including inflation, by 2024- recognising there will be a reduction during the period of strategic rationalisation,
- 2) Deliver a total return annually in line with property market conditions
- 3) Capital receipts from disposals of assets which do not meet the investment criteria will be ring-fenced in an Investment Property Fund and recycled to be reinvested in the Investment Portfolio into existing and more efficient new stock. An annual Investment Property Strategy report will be produced to map delivery.

Approach

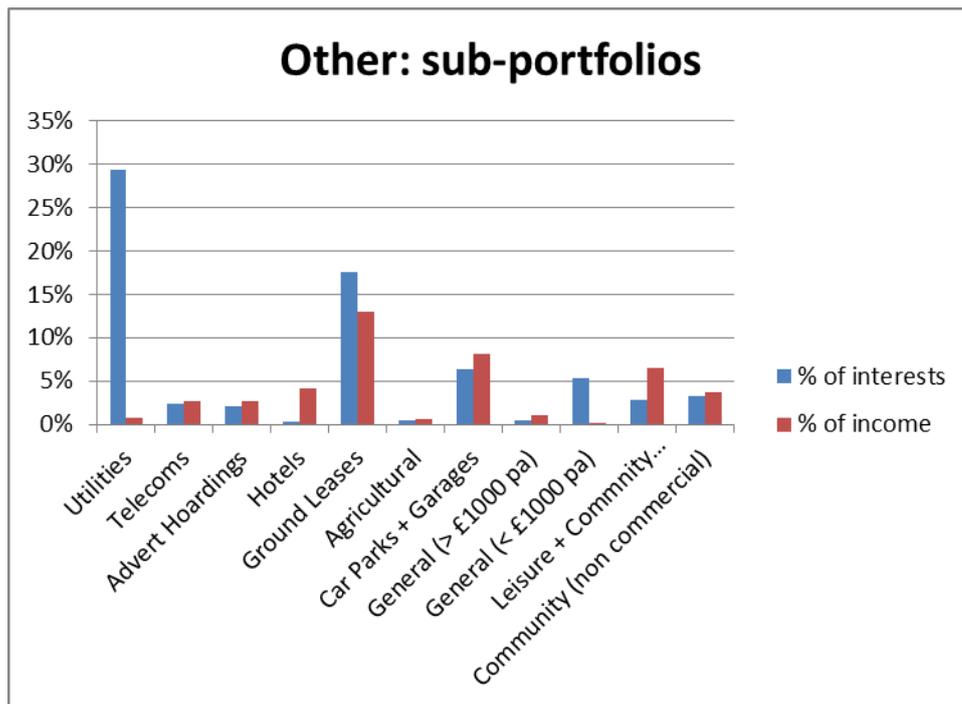
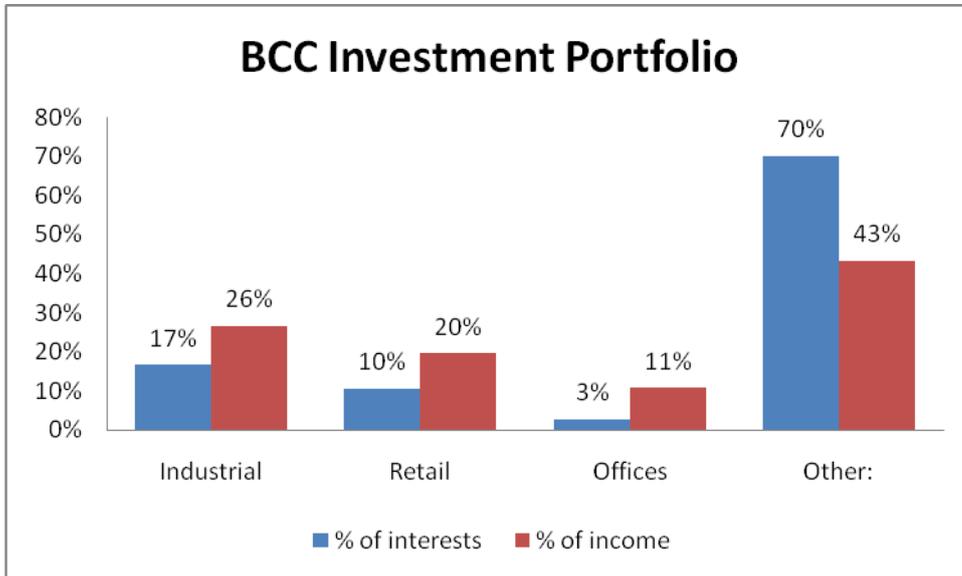
Through governance and a decision-making framework will create an efficient process to achieve a sustainable and profitable Investment Portfolio in a risk controlled manner. This will be achieved through creating an investment framework and providing an asset based decision matrix.

1. An Investment Framework – What assets should be in the portfolio?

New and existing properties will be categorised for suitability for the investment portfolio. To align the portfolio structure with commercial norms the portfolio has been re-classified at

high-level into Industrial, Retail, Office, and Other categories. The spread of assets and income across these reclassified categories is set out below.

Number of Interests v Income derived



The framework will be driven by clear and concise financial criteria, to assess and benchmark success. This will be achieved by assessing the main drivers of value in commercial property, primarily the land/location, the physical building and the lease. Key benchmarks will include:

- Target Return** - The selection of a target return reflecting the City Council’s underlying risk profile. Investment properties must achieve a return deemed to be sufficient for the City Council, without being over exposed to excessive financial and property risk, to be considered an appropriate investment. The sufficient target return will vary for each property depending on its classification as Core (very low risk, e.g. ground rents),

Core+ (low risk, e.g. industrial estate with 5 year leases) and Value Add (medium risk, e.g. office refurbishment opportunity).

- **Security of Income** – The occupancy rates and tenant retention will be benchmarked against peers relevant to each portfolio as a measure of the security of the income. Void and holding cost will also be monitored to assess optimum performance.
- **Diversification** - To support sustainable returns, without being over-exposed to risk, the percentage of office, retail, industrial and other types of assets will be targeted, where possible, to spread the City Council's risk over several sectors, properties, geographies and tenants.

This framework will enable the City Council to ascertain whether current assets are **Strategic** (i.e. meet financial objectives or provide long term control of strategic locations) or **Tactical** (i.e. improvement/disposal opportunities subject to market timing).

The investment framework and the assets within the portfolio will be regularly reviewed (every other year) to ensure they remain relevant given market conditions and that the portfolio is well positioned to achieve the City Council's objectives.

It is recognised that there may be a period where there will be a reduction in revenue during the strategic rationalisation of the Investment Portfolio which may require the City Council to borrow funds in the short term. It is anticipated the first two years will see small dips with a more significant dip occurring in year three before growth in years four and five. 'Invest to Save' options will be considered. Financial advice will be sought regards the treatment of the surplus income and borrowing methods to remain in line with Treasury Management guidelines.

Where the revenue budgets for properties in the Investment Portfolio currently sit with operational service areas, the properties will be transferred into a single Birmingham Property Services Investment Property Portfolio budget, to enable the efficient management of the portfolio. Properties held in the Housing Revenue Account (HRA) will not be included in these transfers due to government constraints upon use of income associated with the HRA. Service areas will be engaged in the transfer process to mitigate financial pressure in existing budget provisions.

Any borrowing for the Portfolio (including existing borrowing for the Red Rose shopping centre) will be included in portfolio reporting. The debt will net down the portfolio value and the debt costs will be a portfolio cost reducing its net income. Conversely, capital receipts in hand would be a cash asset to the portfolio and will earn a short-term interest income to the portfolio in line with Treasury Management guidance

New Investment Guidance from the Government states that local authorities should not borrow purely to profit from the investment of the sums borrowed. We will have regard to this Guidance, and will justify carefully in its annual Investment Property Strategy why it would be appropriate to borrow to fund investment property purchases. It may be possible to make such a case for borrowing to cover short term cashflows until property disposal receipts come in. However, the aim is for the fund to become self-sufficient through the disposal of assets without additional borrowing other than in the short term.

The City Council has recently started to explore alternative investment vehicles in including following a national trend for local authorities to set up Wholly Owned Companies (WOCs): - **Propco** was established to hold the Hilton Metropole Birmingham and Crowne Plaza NEC hotels. The transaction of £29.5 m provides the City Council with an investment vehicle which can be used to borrow money more cheaply and give more flexibility to local authorities than national government allows.

2. **An Asset Management Decision Matrix** - How Assets in the portfolio will be treated

At an asset level, the properties within the Investment Property Portfolio will need to be pro-actively managed to maintain the income, identify opportunities for rental growth and ultimately maximise value. The matrix will provide a pre-agreed process to ensure officers can act quickly and effectively to respond to opportunities and, therefore, optimise the portfolio returns.

Property asset plans will highlight repair and maintenance issues, including the requirement for 'non-discretionary' (e.g. health & safety, statutory) and 'discretionary' (e.g. refurbishment) capital expenditure, including rational for refurbishment which will increase income.

Combined, the investment framework and the decision matrix will guide the operation of the investment portfolio efficiently and effectively, with an emphasis on the commercially driven principles set out above.

To deliver these ambitions and maximise returns, the City Council will have the ability to utilise the following tools to implement the Property Strategy:

- Disposal including freehold sales of properties which do not meet the specified criteria for retention.
Release of freeholds can enable tenant business growth via input from international investors who are deterred by leasehold tenure. Freehold release should be balanced with the Council's need to retain property on long leasehold for investment and borrowing purposes.
- Acquisition and land assembly opportunities
- Joint Ventures – leveraging expertise and capital
- Development opportunities, including change of use
- Conversion of assets to achieve the best income or capital asset growth.
Using office properties in the city centre which are no longer fit for modern offices for residential accommodation; releasing poor quality industrial stock where the properties are in areas outside core employment areas.

A business case will be brought forward to the Investment Property Board on a case by case basis when these tools are implemented.

There will be a requirement for the City Council to procure retained specialist advisors to develop strategies and support investment decisions. This will ensure the City Council acts in line with current

best practice and receives the best independent commercial advice. City Council staff working closely with specialist advisors will simultaneously develop skills and a shift in culture will be enabled, so over time growing our own in-house expertise.

Performance Monitoring

Performance monitoring of the Investment Property Portfolio will be linked to a combination of market derived benchmarks, where available, and absolute returns where appropriate. These will include:

- Gross income return
- Net income return
- Capital expenditure
- Capital return
- Total return
- Void %
- Sector weightings
- Outstanding rent reviews
- Outstanding lease/tenancy renewals
- Income profile
- Rent and service charge collection statistics
- Potential bad debts
- Tenant risk (exposure to a single tenant or type of occupier)

All of the above will be reviewed by comparison with a Two Year Portfolio Plan and appropriate market norms.

Growth and Development Portfolio

Introduction

The Birmingham Development Plan and The Birmingham Big City Plan set out the city's growth agenda to provide new jobs (including the promotion of small and medium-sized enterprises (SME's) and independent businesses), homes and infrastructure. Delivery of these strategic requirements will be centred on growth areas which will include both major brownfield sites focussed around the network of key urban centres including the city centre and also the Langley Sustainable Urban Extension and Peddimore employment site which are outside the current built-up boundary of the city.

The City will proactively utilise its asset base to drive this growth agenda with success judged by the number of jobs created, linking to the Jobs and Skills agenda, the amount of brownfield redevelopment facilitated, the number of new homes built, especially affordable homes, quality of development, social value and inclusive economic growth achieved.

Annually on average the City raises £30m in capital receipts from sale of properties which are required to enable development and growth, or are surplus to the Council's requirements. The receipts are used to fund City Council capital priorities as decided through the annual financial planning process.

The City Council has the opportunity to utilise its land assets to increase housing supply through direct delivery of homes. The Council has a huge challenge to deliver the new homes that they city needs by 2031, and the Council plays a key role in delivering new homes in the city. The Council builds more homes in the city than any other developer – 2,900 since 2009, and 420 in 2017-18 alone – and the Property Strategy has a key role to play in supporting its own housing delivery programmes. Crucially, through the Birmingham Municipal Housing Trust the Council provides more affordable housing than all of the city's Housing Associations combined. The Council's house building programmes also generates significant income to the Council - £27m in capital receipts in 2017-18 alone. Such an active development programme uses in excess of 20 acres of land per annum, and there is a constant need to replenish the land supply to maintain the current rate of delivery.

Objective

The objective is to utilise City Council property to support the growth agenda by reducing constraints and risk, providing confidence, stimulating investment and creating a positive environment for growth. This will focus on both commercial and mixed use developments and boosting the delivery of new homes through the Council's own housing delivery models, the Birmingham Municipal Housing Trust and InReach.

The Property Strategy has a key role to play in supporting the Council's house building programmes by identifying surplus land and property which can be directed towards supporting these programmes. In order to support the Birmingham Municipal Housing Trust and InReach, the Strategy proposes where relevant appropriate surplus land and property be considered for development by these programmes before consideration is given to offering such assets to the market.

This approach will also be aligned to the Adults Agenda seeking to introduce schemes such as Happy Homes and Shared Life Schemes which would enable the disposal of day centres which are no longer fit for purpose.

The City Council will work in partnership with public and private sector partners to ensure that appropriate land is brought forward for development. We will seek to maximise the value that the development delivers in terms of regeneration benefits, including job creation, brownfield redevelopment, increased Uniform Business Rates and development profit, as well as targeting the highest of sustainability assessment methods including carbon footprint reduction, and blue / green infrastructure.

Approach

A spatial approach will be taken to identifying those assets which are within growth areas as set out in the Birmingham Development Plan and The Birmingham Big City Plan or which have been identified as potential housing sites in the Strategic Housing Land Availability Assessment (SHLAA). Sites which fall within strategic allocations will fall within the Growth and Development theme and will be utilised to enable and enhance the delivery of strategic growth.

Sites in urban centres and in the city centre which fall outside these designations, but which have particular value for growth and regeneration will also be relevant. This will include support for independent businesses by a variety of means.

Identified assets will be assessed to determine the appropriate approach to maximise their contribution towards City Council priority outcomes, bearing in mind their potential contribution to strategic regeneration in the area. Where multiple assets affect the same designation, they will be assessed as a package.

It is anticipated that the majority of conservation and historic assets that are not in trust will be in this portfolio. This will include the culturally significant assets such as the Jewellery Quarter. The Jewellery Quarter is an early opportunity to deliver regeneration and conservation on a significant scale.

Securing new, high value jobs and inclusive economic growth is a key objective for the City. It will be a priority to establish a mechanism to enable the City to respond positively to occupier driven site requests without the need to progress through a market disposal process where their requirements fulfil this objective.

Completed developments will be subject to options appraisal to the Property and Assets Board to determine the best value outcome for the City Council. This may be to enter the Investment Property Portfolio where the investment criteria of that portfolio are met, or sale to generate capital receipts to support other City Council investment or debt repayment. The approach for each asset will be informed by the nature of the strategic allocation affected. Disposals from within the Growth and Development portfolio will be weighted towards quality, delivery and social value.

Where assets fall within strategic growth allocations they will be assessed to determine how they might best be utilised to deliver the City Council's priority outcomes, taking account of regeneration and housing opportunities.

The City Council will have the ability to utilise the following strategies to deliver these ambitions:

Where the City Council is the major landowner a Joint Venture approach with a development or investment partner will be preferred where it is more likely to be the best value approach,.

Where the City Council is a minority landowner disposal or a Development Agreement will be the usual course of action.

Acquisitions will be sought where additional land holdings will facilitate the delivery of strategic objectives. Compulsory Purchase powers will be employed where required.

Remediation and de-risking will be considered where required to deal with contamination, flood risk and other constraints.

Predevelopment activities to provide infrastructure and access, such as spine roads and services, will be actively considered and funded to reduce the time taken to react to market demand and bring forward the development of sites.

Given the priority demand for housing in Birmingham SHLAA sites which are not already allocated for development will be assessed having regard to the need with a view to bringing forward residential development in a timely manner to meet the city's need for new homes. Approaches may include:

- Granting of Outline Planning Permission under brownfield land powers;
- Allocation of the site for custom/self-build;
- The City Council bringing forward development itself via Birmingham Municipal Housing Trust - £30m in capital receipts in 2017/18;
- Partnership working, for instance with 'Homes England' (the Ministry of Housing, Communities & Local Government's non-departmental public body)

Performance Monitoring

Performance monitoring for the Growth and Development Portfolio will take account of:

- Milestones set for assets within strategic allocations which have actions identified in the Property Asset Management and Delivery Plan.

Status of assets within the portfolio in terms of their impact on development proposals where green indicates available for development, amber indicates in progress and red indicates unavailable.

Community Portfolio

Introduction

Community assets make a major contribution to the social fabric of the City, providing safe social spaces where people from a range of backgrounds can interact, and access recreational and cultural activities, educational and support services. Individual properties may assume a cultural significance greater than their operational or financial value and they act as “hubs” providing the heart in a community supporting the Council’s Sharing Economy and Capacity Building initiatives. Creative use of property assets can unlock local innovation, enable community action, support resident-led solutions, and attract external community specific funding. It takes devolution of control and resources to neighbourhoods, creating long-term social value.

Many of these assets are let at less than market rent in return for services provided by the occupier. Historically nil rent arrangements were agreed against evidence the occupier would either: provide ‘community’ services in lieu of rent; attract funding for services to their locality from external bodies; or secure funding to undertake onerous building repairs. More recently rent has been levied on tenants and off-set by ‘grant for rent’ payments from the City Council. Community Asset Transfers (CATs) are a mechanism introduced in 2011 to support community and third sector organisations – and have had variable success. CAT leases attract a market rent, but the rent is off-set by provision of agreed service objectives whose ‘worth’ is calculated formally and recorded in the lease.

The new Community Portfolio includes properties used for recreation, sports, cultural, and Third Sector activities. These assets operated by independent community providers make a major contribution to the social fabric of the City. Establishing a Community Portfolio will enable the City Council to make effective use of its property assets to support the activities of organisations providing services for the community: delivering social value; enhancing service delivery; and providing cost savings. An increasing number of the services once provided by the City Council located in the Operational portfolio are being withdrawn which has resulted in further properties becoming available for community use by third parties. These together with some properties already let to third parties in the Investment Portfolio, or let via Development Agreements will make up the Community Portfolio. The existing Community Asset Transfer protocol will be reviewed and developed to enable services to be secured on a commissioning basis where need has been identified by the Council’s service providers.

Directly managed community facilities such as community centres, libraries, parks, youth centres as well as direct grants to Voluntary Sector Organisations are excluded from this Portfolio. Properties which are of strategic or tactical importance to the Investment Portfolio are also excluded from the Community Portfolio, even if they are occupied by community organisations. Applications for Assets of Community Value will not be managed as part of the Community Portfolio.

A high level exercise has already identified a number of community interests which are primarily in the existing Investment Portfolio. Service areas have been consulted in drawing up the list, and properties will be further reviewed as part of the Investment Portfolio Investment Framework process. The estimated market rental value of the assets let to third parties is circa £2.6m per annum. Gross rent to the value of £1.2m per annum is collected, but after grants are distributed the Council receives a net rent of approximately £0.2m per annum.

Community Portfolio assets can be divided generally into three themes, although some local cultural and sports services are delivered through assets which have been categorised as ‘third sector’ e.g. former community, wellbeing and youth centres :

1. **Sports:** playing fields, sport & leisure centres, sports clubs (football, bowling, rugby, athletics, water sports etc.), and a swimming pool. This will include assets for the Commonwealth Games 2022.
2. **Culture:** museums and their storage facilities, heritage buildings and sites, galleries, arts centres, theatres, performance spaces, music venues etc. Other local cultural services are supported by assets which have been categorised as ‘third sector’ e.g. former community, wellbeing and youth centres.
3. **Third Sector:** land and buildings which house local neighbourhood services client specific services , and other third sector services delivered by third parties which fall under the remit of the City Council’s Adults, Children’s, Community and Youth services – e.g. wellbeing centres and library services; lunch clubs and deaf cultural centre; the scouts and the British Legion; as well as green spaces.

Objective

The objective of the Community Portfolio is to deliver the Council’s core objectives, enabling services, developing neighbourhoods, encouraging social cohesion, building capacity, and leveraging external funding through sport, culture and community activities.

The Community Portfolio will target non-governmental, not for personal profit, social value driven partners within the city to help meet the City Council’s core objectives. These partners can include voluntary and community organisations (both registered charities and other organisations such as associations, self-help groups and community groups), social enterprises, mutuals and co-operatives.

Successful use of property via the Community Portfolio will assist in reducing the need for Council delivered services, the increased provision and diversity of sport, culture, community and wellbeing. Increased self-supporting neighbourhoods and ongoing capacity building will increase social cohesion and reduce anti-social behaviour.

In particular the vision and objectives of the three themes identified above will be taken in to account:

1. Sports

To support the delivery of the City’s Sports Vision and Goal of Birmingham becoming the most active and successful sporting city in England - getting more people, more active, more often and more people starting, staying and succeeding in sport. Working with the relevant service areas the management of assets for sporting activities through the Community Portfolio will have regard to the active Sports strategy documents.

Strategic use of property assets and a ‘one council’ approach will be vital to the delivery of the Strategic Framework for the Development of the Commonwealth Games 2022. Optimum use of the Council’s property assets should assist in the delivery of legacy sports facilities for Birmingham.

2. Culture

To support the delivery of the City's Cultural Vision of Birmingham as a non-stop city of culture with local roots and international reach. The Vision seeks to enable the growth of creative and cultural small and medium enterprises (SMEs) and micro-businesses and individuals through business support, skill and talent development and access to finance by developing low cost workspace for creative businesses and support cross innovation and encouraging key property developments to actively enhance and support the city's cultural ambitions.

Working with the relevant service area staff, management of cultural assets through the Community Portfolio will have regard to the active Cultural strategy documents.

3. Community Organisations and Third Sector

To support local organisations to provide additional services and activities that help improve neighbourhoods. The Community Portfolio will support the intensified focus on income generation opportunities to bring in external funding to local areas, in particular enabling community organisations to secure more funding.

Working with the relevant service area staff, management of this sector's assets through the Community Portfolio will have regard to active strategy documents including Adults, Children's, Youth, and Green Spaces such as: Community Cohesion Strategy, Deprived Neighbourhoods, Integrated Community Strategy, Community Sharing Programme; Adults Agenda, Capacity Building, and The Localism in Birmingham: A Framework for Future.

The Localism Framework includes proposals on how assets will be dealt with differently to unleash creativity and ideas in our communities, and recognises the needs of different local areas in the city.

Approach

The objective of the Community Portfolio will be achieved by building upon the existing assets base and developing a commissioning approach from the existing CAT protocol to attract a wider offer of community service providers. CAT transactions may still be adopted, but it is recognised this method does not suit all situations. The new approach will build on the successes and learn from the challenges of the previous experiences. By supplying 'fit for purpose' properties in return for social value trust will be developed in the Council's intentions and as a result 'best in class' partner organisations will be attracted to work with the Council. Existing lettings will be reviewed as part of an Asset Review programme, but it should be noted many of the existing leases, unlike CATs are not performance related and tenants have secure tenancy rights.

The Community portfolio will approach this objective in two ways:

1. Approach to Community assets: Community owned assets are the responsibility of the community organisations themselves. The City Council will consider support for capital investment in community assets which support the Council's key priorities, as part of its annual financial planning process. This will be a long-term approach to support the growth and sustainability of the three key themes of sports, culture and community organisations/third sector; whilst alleviating the need for the City Council to respond to pressures on an ad hoc basis.

The City Council will commission investment in community assets in accordance with its key priorities to encourage social cohesion, resilience and develop community networks. The City Council will therefore commission the services it wishes to enable, linked to the specific service area target outcomes. Using the baseline of what has already been delivered through CATs a new commissioning model will be developed led by the service areas.

The structure of the acquisition framework aims to move the provision of Community assets from an ad hoc basis to a commissioning approach. In this way, the City Council can support the needs of the community in a transparent and efficient manner where this supports City Council key priorities.

Where assets are held in the Housing Revenue Account, for Educational purposes, or in Trust, certain restrictions will apply to disposals. This includes statutory restrictions of receipts for the Housing Revenue Account, or for specific Trust or Educational purposes.

2. Managing the Existing Community Assets

A large proportion of the current community assets are on a range of historic below market rent agreements or grant for rent agreements. As these agreements expire they may be given the option to migrate to Community Asset Transfer leases or the new commissioning model, where the service provided continues to meet the identified need.

Performance Monitoring

A robust and transparent framework will be adopted in consultation with the City Council's service providers to ensure distribution of these enabling services where there is need across the City and with reference to the existence of retained directly managed facilities in the locality, deprivation and identified outcome deficits.

Operational Portfolio

Introduction

Operational assets are vital for delivery of Council services. For many citizens the estate of Council operated libraries, day centres, car parks, refuse centres, swimming baths, schools, administrative offices etc. represents their most recognisable and tangible relationship with the local authority. The Property staff will work closely with Council service areas to drive out opportunities where Council and other public service providers can co-locate enabling rationalisation of the operational stock. Assets will be operated efficiently to provide high quality service outcomes and address local needs whilst reducing running costs and the City Council's carbon footprint.

The Operational Property Portfolio enables the City Council to deliver a wide range of valuable services on a broad geographical basis across Birmingham. For the purposes of this Strategy "operational" property includes those premises occupied by the Council for administrative purposes (Corporate Administrative Buildings - CAB), those operated directly by the City Council, and those where a provision has been contracted out to a third party (e.g. leisure centres and children's residential care) or where there is a staff lead mutual body (e.g. Citiserve). The Operational Portfolio does not include properties which are used to deliver services by third party organisations that are independent of the Council (with the exception of grant support) – such properties are instead included in the Community Portfolio.

Property often represents the second largest source of revenue expenditure to individual service areas (after staffing costs) and is also a notable source of capital cost (either directly or locking in capital value in a fixed property estate). Where one service area occupies property held by another service area quasi rental agreements have been created which create internal revenue streams. Implementation of the Property Strategy will alleviate the need for such internal re-charging.

Objective

The objective of the Operational Property Portfolio is to hold 'fit for purpose' (as defined below), economical property that meets specific service defined objectives. A drive for services to co-locate in to properties which are at the centre of neighbourhoods is at the heart of the Operational strategy.

The financial objective is to deliver at least a 20% reduction in directly managed property (measured by Gross Internal Area) over the three years 2019-21. This objective is in response to the budget reductions embedded in the City Council's Long Term Financial Strategy.

Approach

The City Council will rationalise its operational stock, ensuring that the City has an efficient portfolio of buildings and land which meets its needs. Operational assets will be optimised so that services will utilise the most suitable and cost-effective assets with appropriate locations to address local needs. Assets will be operated efficiently to provide high quality service outcomes whilst reducing running costs and the City Council's carbon footprint

More specifically, the City Council's operational portfolio needs to meet a number of criteria to represent an effective use of the organisation's (and taxpayer's) resources:

- Offer a good standard of accommodation, complying with all relevant Health & Safety and regulatory requirements (e.g. Office for Standards in Education (OFSTED), Care Quality Commission (CQC), Equal Opportunities Act 2010 etc.);
- Be of a suitable standard of repair with regular investment to reduce any maintenance backlog;
- Be affordable to operate;
- Have a low environmental impact and follow good practice in sustainability ;
- Be an effective use of resource (capital and revenue), available for City Council or public / sector service delivery for a significant element of the week;
- Must be accessible to be public, both in terms of physical design and location;
- Endeavour to provide a range of City Council (and other public sector) functions;
- Provide support to develop Academies – the Council will co-operate with the Education and Skills Funding Agency: seeking market value for land where provision of Academies in a specific area is already sufficient; and where provision is insufficient the Council will consider transfer of land at nil value.

It can be noted that the first four of the above criteria apply to the property portfolio as a whole, and puts the City Councils occupation on a similar basis to what would be expected by third party occupiers.

The sharing of premises will be strongly encouraged, both between City Council services and also public sector partners using One Public Estate principles. The continued use of buildings which are shown to have a higher than average cost to run, and/or to be in close proximity to similar service providers will be challenged. Property will lead the decision making process for rationalisation based on a commercial interpretation of the service area's holdings.

It is recognised that each of the individual services will have their own property requirements to deliver their respective services. Each service will produce a 3-year plan detailing the size and make up of their front-line estate and how they will rationalise their portfolio utilising a series of tests and benchmarks to be identified. These include:

- Gross property running cost (£ per square foot)
- Net property running costs (£ per square foot excluding business rates) - disinvest in all premises with running costs more than £12.50 per square foot to operate
- Maintenance backlog - disinvest in all premises with a backlog greater than £20 per square foot
- Suitability score
- Energy rating – disinvest of all premises with a rating of “E” and above
- Utilisation of premises – property to be used a minimum of 40 hours a week
- Colocation opportunities – initially all City Council buildings within a one mile radius and all public sector buildings within a 0.5 mile radius of each other be considered for potential colocation – further co-location opportunities will follow in larger radius

- Agility - all buildings providing 10 or more workstations to operate at a minimum 25% agility as per the corporate office estate - exploiting developments in shared technology and introduction of city centre congestion charging; and encouraging a change in work culture to build upon agility targets
- Most effective use of capital – identification of operations that occupy valuable assets and determine if the service can be re-provided elsewhere and the value realised.
- Future finances – how the portfolio can be supported as part of the City Council’s Long Term Financial Strategy

It is recognised not all assets will suit this method, for instance car parks which would instead be evaluated on a case by case basis. The 3-year plan will be presented to the Property and Assets Board for challenge and approval. Service Area plans will include short term / medium term and long term targets to address the Council’s urgent need to reduce costs and make savings.

In the short-term a programme of quick-win asset rationalisation is being developed which will identify buildings where running costs are significantly high and suitable service co-location opportunities are in close proximity. A first phase project has been identified which will create a portfolio of public sector ‘service hubs’. Enabling properties to provide accommodation for multiple uses – for example community, youth, adult education, leisure, community, and day care centres, housing advice offices, children’s services, and libraries etc. As a result a number of poorly maintained, poorly sited single service use premises will be decommissioned and disposed of.

Properties considered to be surplus following rationalisation of the Operational Portfolio may be offered to third party organisations to deliver services where it can be shown to fulfil an identified local need. However, where an options appraisal concludes it is the best value outcome for the City, surplus assets will be offered for sale on the open market.

A good example of this type of rationalisation in practice was the transformation of the Central Administrative Buildings (CAB) offices as part of the successful Working for the Future programme. This saw a major rationalisation of the City Council’s office estate reducing from around 70 buildings and in excess of one million square feet down to the seven core buildings that provide circa 560,000 square feet. This project continues to deliver significant savings with a total saving of around £100m being generated over the 25-year life of the project this equates to annual revenue savings in excess of £7.5m per annum. Additional savings targets have been set which will increase the saving originally predicted.

Performance Monitoring

The above indicators will inform services in the drive to rationalise the City Council’s property holdings, with a target to deliver at least a 20% reduction over three years in directly managed property (measured by Gross Internal Area) in response to the budget reductions embedded in the City Council’s Long Term Financial Strategy.

Delivery and Governance

To deliver the Property Strategy, the City Council will:

1. Establish new corporate governance arrangements for the Property Portfolio

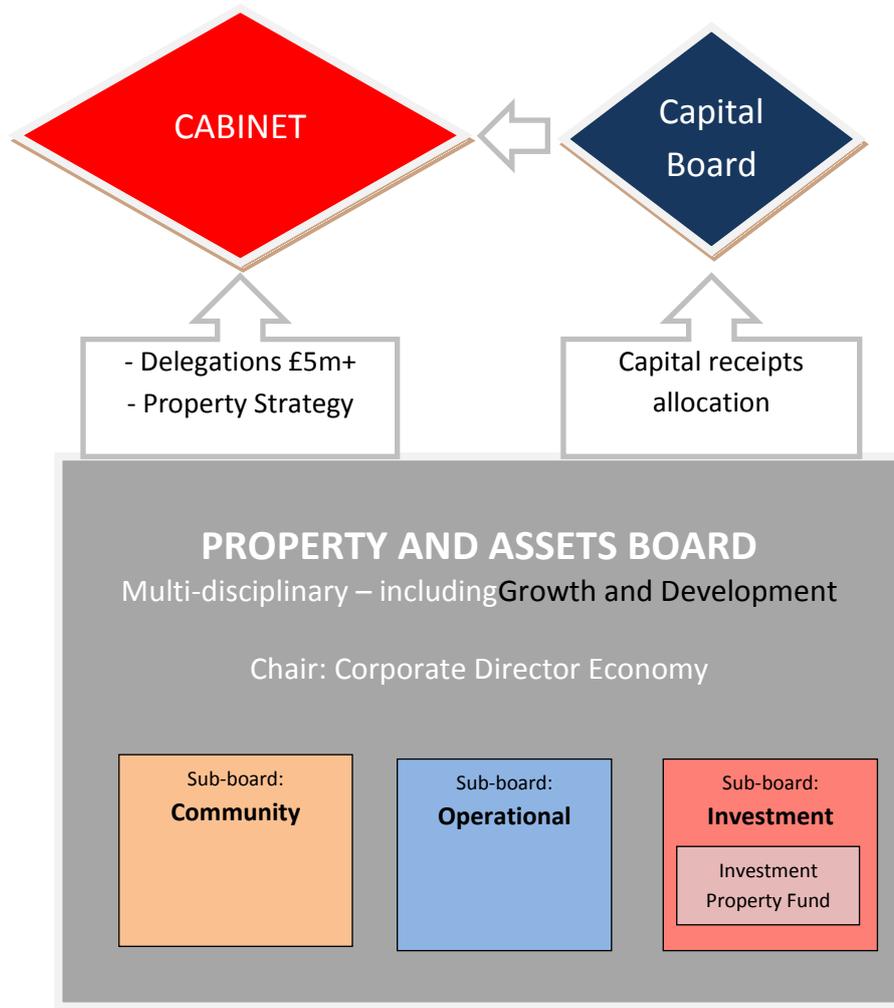
For the Property Strategy to be effectively implemented on an ongoing basis the governance process must enable increased agility and responsive decision making by officers.

Currently the Corporate Director Economy, jointly with the Leader has delegated powers for property matters limited to £1m per transaction/set of transactions. Property budgets are not all held centrally by Birmingham Property Services (BPS) as service areas hold individual budgets for capital and revenue expenditure on properties held for both operational and investment purposes.

Delegations and reporting procedures are to generally remain the same with two exceptions. The level of delegations is to increase from £1m to £5m capital and £5m revenue to reflect the increase in quantum of transactions predicted. Budgets currently held by service areas relating to properties in the new Investment portfolio are to be moved to a central budget managed by BPS.

The Property Strategy will be an important part of the City Council's annual Business Plan and Budget. It will relate closely to the Capital Strategy, which sets out how capital resources will be used (including capital receipts from property sales), and which is managed through a **Capital Board**. The Property Strategy will be part of the annual business planning cycle, contributing to the development of savings and spending plans as part of the annual Budget, with the objective that the City Council's property is both suitable and in appropriate condition to deliver good value for service outcomes. Within this overall strategic framework, decisions relating to property assets will be made by the City Council's Cabinet, delegated where appropriate.

The Property and Assets Board (PAB) is an established senior officer forum under the chair of the Corporate Director Economy. The Board will ensure a consistency of approach in the management of property and will coordinate decisions being presented to Cabinet or made through use of the scheme of delegations. The management of property assets and delivery of the Property Strategy will be conducted by the PAB with the input of sub-boards for the Community, Operational and Investment themes. PAB will guide implementation of property realignment whilst Capital Board will implement decisions regards capital receipts and acquisitions on recommendation from PAB. Both will seek approval from Cabinet where receipts exceed £5m. The Board will also liaise with the West Midlands Combined Authority and public sector partners including Homes England.



PAB will make decisions about the Investment Property portfolio via the Investment Sub-board within the framework of the overall Investment Strategy which will be reviewed and approved annually by Cabinet. Every year, before the start of the financial year, the Investment Property Board (with relevant disciplines and access to advice) will review the performance of the portfolio, develop strategies and agree purchases and sales within parameters as recommended by an Investment Property Strategy report agreed by Cabinet.

PAB will act in accordance with the local authority regulatory environment, including the Ministry of Homes, Communities and Local Government (HMCLG) Investment Guidance and the City Council's overall investment strategy, as appropriate. This will include obtaining professional advice, and ensuring that the City Council has the capacity, skills, knowledge and training to manage the portfolio risks. Investment Management Practices will be set out to support the operational management of the portfolio.

2. Staff and Resources

- Staffing and Culture - Future Operating Model – Short-term Support

A new future operating model for Birmingham Property Services has been developed to deliver the Property Strategy. Three property management teams instead of the previous five have been created

covering 'Operational', 'Valuation & Sales' and 'Investment'. Within the Investment section a new Strategic Investment team has been defined which will be co-managed with the existing Development teams to ensure joined up thinking and working is achieved across portfolio themes. This new Strategic Investment team will provide opportunity to recruit staff with commercial property experience so expanding in-house skills. A new team has been identified to specifically manage the Community Portfolio within the Operational section. The Valuation and Sales section will fulfil the financial requirement for asset valuations, and also provide valuations to monitor future performance and returns. The new operating model will promote a culture shift in the organisation which will underpin the vision of the Property Strategy and encourage a similar culture shift in relation to property across service areas.

In addition to the permanent property staff structure it is recognised extra temporary resources will be required to deliver the ambitious shorter term targets including prompt consolidation of Operational properties; reclassification of Investment portfolios; and first phase projects in the Industrial portfolio and Jewellery Quarter. The increased number of property transactions will also require an increase in support from Council and external legal services. Financial resources to support this recruitment must be found centrally.

- **Data Handling**

Existing data entries and systems will require review and re-alignment with the new key themes and reclassification of the Investment properties to enable effective and efficient ongoing management and performance monitoring. A gap analysis will identify where resources require deployment to achieve this aim.

3. Undertake Property Asset Review

The City Council's property assets will be reviewed on an individual and portfolio basis. The review process will incur an increase in resources and costs which will be identified as part of the project management process. The Review will assess assets and assign them to one of the following four themes based on the primary purpose of the asset as follows:

Investment - The asset is required to deliver a financial income either through letting or disposal.

Growth and development - The asset is required to deliver strategic regeneration proposals as defined spatially by the BDP.

Community - The asset has been prioritised to deliver the City Council's commissioned objectives for community assets

Operational - The asset is the most suitable and cost-effective available for the delivery of a required service, taking into account its existing use and also the operational needs review.

Following this initial categorisation of the current use of the asset, all assets will be progressively reviewed using options appraisal against City Council objectives and service future operating models to identify the best value outcome for the asset, which may include appropriation to a different use, or sale to generate resources to deliver better value City Council outcomes. Properties will be reviewed regularly throughout their life time and may move between portfolios.

The Review will also identify:

- Individual asset valuations – in line with the Accounting Code requirements
- Surplus assets
- Assets which are not fit for purpose
- Opportunities for co-location
- Any unmet operational needs
- Key priorities for the delivery of social regeneration and inclusive economic growth through the provision of accommodation for community uses
- A schedule of needs on a ward by ward basis, considering local factors such as relative deprivation and the priorities of the Ward Members

There are a number of opportunities to develop and implement strategies that should be brought forward as a matter of priority:

- Assessment of ground leases to assess strategic and tactical value;
- Review of the following key holdings to determine the optimum strategy for maximizing value to the City Council:
 - Jewellery Quarter ;
 - Industrial estates ; and
- Undertake capital valuations of assets to gain a better understanding of the risk profiles.

These potential early wins could be accelerated by the procurement of a specialist advisor to bolster the City Council's resources; which would ensure the City Council acts in line with current best practice and receives the best independent commercial advice.

Assets of historical significance will be assessed to determine how they can be protected and enhanced whilst taking account of City Council priorities and resource availability. There will be the requirement to structure partnerships for assets which require specialist actions with a JV partner who is capable and motivated to bring forward appropriate development in a structured manner. Appropriate structured agreements will include specific provisions that support statutory policy and ensure that partnering organisations have the capability and motivation to maintain the integrity of the asset.

3. Develop a Property Asset Management and Delivery Plan

Following the asset review a Property Asset Management and Delivery Plan (PAMDP) will be brought forward. The PAMDP will be reviewed regularly and will act as the key management tool providing a complete picture of the status of the City Council's property portfolio and the activities being undertaken for its management and improvement.

The PAMDP will comprise:

- An action plan setting out in detail the measures to be undertaken on an asset-by-asset basis
- The treatment of conservation assets, including assets such as the Jewellery Quarter.
- A register of operational and community needs

- A plan to ensure all City Council owned property assets are registered
- Monitoring and performance data based on objectives and benchmarking set out for each of the portfolios.

The course of action selected for each asset will be chosen with reference to the Property Strategy for the relevant asset portfolio. These proposals will be brought forward as part of the City Council's annual financial and business planning process. The City Council's overall Property and Asset Strategy and Plan will be summarised and approved as part of the annual City Council Business Plan and Budget.

