

Public Report
Birmingham City Council
Report to Cabinet

13 November 2018



Subject: **PROPERTY STRATEGY 2018/19-2023/24 INCLUDING FIRST PHASE PROJECTS**

Report of: **CORPORATE DIRECTOR, ECONOMY**

Relevant Cabinet Member: **Councillor Ian Ward – Leader of the Council**

Relevant O &S Chair(s): **Councillor Tahir Ali – Economy and Skills
Councillor Sir Albert Bore – Resources**

Report authors: Kathryn James, Assistant Director Property (Interim):
Email: kathryn.james@birmingham.gov.uk Tel: 0121_303 3844

Helen Juffs, Principal Surveyor :
Email: helen.juffs@birmingham.gov.uk Tel: 0121 464 1624

Are specific wards affected?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No – All wards affected
If yes, name(s) of ward(s):		
Is this a key decision?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
If relevant, add Forward Plan Reference: 005335/2018		
Is the decision eligible for call-in?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Does the report contain confidential or exempt information?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
If relevant, provide exempt information paragraph number or reason if confidential :		

1 Executive Summary

1.1 This report seeks authority from Cabinet to approve the Property Strategy 2018/19-2023/24. Through the Property Strategy the City Council will set out how it will utilise its assets to maximise income, unlock opportunities for growth and deliver social returns. A summary and a full copy of the Property Strategy are attached respectively as Appendices 1 and 2.

- 1.2 To support efficient delivery of the increased quantum of transactions required for the Property Strategy outputs it will be necessary to increase resources and update governance procedures, in particular this report seeks approval to:
- 1.2.1 Delegate the commencement of procurement activities and the award of contracts for external legal and (where there is not resource available in-house and subject to the prior written approval of the City Solicitor) property advice;
 - 1.2.2 Authorise a recommendation to the Council Business Management Committee to put forward a motion to Full Council for approval to the increased 'property' delegations financial thresholds to both the Chief Executive and the Corporate Director Economy alone and to the Chief Executive and Corporate Director Economy jointly with the Leader in consultation with the Corporate Director Finance and Governance as detailed in section 7.2 below;
 - 1.2.3 The ring-fencing of receipts raised from the disposal of properties held for investment purposes into the Investment Portfolio, for subsequent re-investment to deliver increased capital value and returns subject to the approval by Cabinet of the planned investment portfolio activities as set out in the annual Investment Property Strategy report.

Where such capital receipts are not approved for subsequent re-investment in the Investment Portfolio, either in whole or in part, should there be any impact on the budgeted revenue income stream this will be considered as part of that approval process.
 - 1.2.4 Transfer budgets held by service areas in relation to Investment properties under a central property budget managed by Birmingham Property Services.
- 1.3 Prompt implementation of the Property Strategy is essential in order to meet financial targets, take advantage of changing property market trends, and protect the City's assets. First phase projects have been identified which contribute to both commercial and social returns. This report asks Cabinet to note the first phase Property Strategy projects as recommended below.
- 1.4 Notes that a private version of the report identifies rental income projection assumptions and initial implementation budgets.

2 Recommendations

That Cabinet:

- 2.1 Approves the Property Strategy 2018/19-2023/24 attached at Appendix 1 and 2.
- 2.2 Delegates the approval for the commencement of procurement activities and the award of contracts for the provision of external legal and (where there is not resource available in-house and subject to the prior written approval of the City Solicitor) and property advice to support the delivery of the Property Strategy for

the estimated value of £2.25m to the Corporate Director, Economy, the Director of Commissioning and Procurement, the Corporate Director, Finance and Governance (or their delegate) and the City Solicitor (or their delegate).;

- 2.3 Authorises a recommendation to the Council Business Management Committee to put forward a motion to Full Council for approval to the increased 'property' delegations financial thresholds for the both the Chief Executive and the Corporate Director Economy alone and to the Chief Executive and Corporate Director; Economy jointly with the Leader in consultation with the Corporate Director; Finance and Governance – as detailed in 7.2 below. Delegations will be reviewed every three years in line with the Property Strategy.
- 2.4 Approves the ring-fencing of receipts raised from the disposal of properties held for investment purposes into the Investment Portfolio, for subsequent re-investment to deliver increased capital value and returns subject to the approval by Cabinet of the planned investment portfolio activities as set out in the annual Investment Property Strategy report.
- 2.5 Notes that where capital receipts are not approved for subsequent re-investment in the Investment Portfolio, either in whole or in part, should there be any impact on the budgeted revenue income stream this will be considered as part of that approval process.
- 2.6 Approves the transfer of general fund revenue budgets from service areas which in relation to property assets held in the new Investment portfolio to a central budget managed by Birmingham Property Services (BPS).
- 2.7 Notes the implementation of first phase projects subject to the production of individual Executive reports:
 1. Programme to dispose of surplus properties – Investment and Operational portfolios;
 2. Industrial estates portfolio;
 3. Jewellery Quarter: property support for incubation/growth of creative industries;
 4. Provision of Public Service Hubs;
- 2.8 Authorises the City Solicitor where necessary, to advertise the permanent loss of public open space and consider any objections in accordance with Section 123(2a) of the Local Government Act 1972.
- 2.9 Authorises the Assistant Director Property to negotiate and finalise terms and authorise the City Solicitor to negotiate, execute and complete all necessary legal documents to give effect to the disposal of surplus properties detailed in the Sites Prospectus as attached at Appendix 5.

3 Background

Property Strategy:

- 3.1 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 homes, infrastructure and schools has an asset value of over £2.4 billion. Income generating assets attract on average £32 million revenue and £30 million capital receipt income from sales per annum. There are more than 6,500 property assets (land and buildings) in the Portfolio and over 330 of these have historic interest.

3.2 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.

3.3 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 commercial, leisure and retail space, 990 acres of employment land and £4 billion infrastructure investment by 2031.

3.4 The Property Strategy has been informed by a strategic review of the Council's property portfolio. An external agent, CBRE, was appointed to assist in this process and support clarity of technical content of the Investment Portfolio and drafting the Property Strategy document.

3.5 Through the Property Strategy the City Council will set out how it will utilise its assets to maximise income, unlock opportunities for growth and deliver social returns. The Property Strategy is structured around four key themes:

Investment – divided into core asset classes this portfolio will focus on maximising capital returns to re-invest and deliver greater revenue to support wider City Council service delivery;

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 third party not for personal profit 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.

3.6 The key objectives for the Property Strategy are:

Drive greater returns – develop an investment property portfolio run on a commercial basis - delivering medium growth in gross income, including inflation, by 2024,

Catalyst 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.

- 3.7 A series of Property Asset Reviews and Property Asset Management and Delivery Plans will develop actions to deliver the medium and longer term objectives of the Property Strategy.
- 3.8 Property market demands fluctuate which makes it imperative the Property Strategy is implemented promptly, otherwise opportunities to secure investment may be missed. A pilot project to sell freehold interests from the Investment portfolio to existing long leaseholders was undertaken in July and several of the transactions have now been agreed and will release capital for reinvestment. The first phase implementation of the Property Strategy will see four projects brought forward (details below).
- 3.9 These opportunities have been identified through the process of reviewing the Council's property portfolio and identifying assets in response to property market trends and demands and which are surplus to Council requirements.

First Phase Projects:

Investment Portfolio projects:

Project 1: Disposal of Surplus Properties

- 3.10 A number of properties across the city held in the Investment Portfolio require capital investment to enable economic growth.. The properties do not meet the City's Investment criteria and so will be released on the open market to enable investment by third parties. The properties will be advertised for sale on a freehold or long-leasehold basis and are detailed in the Sites Prospectus at Appendix 5.
- 3.11 The sites listed in Appendix 3 are surplus to Council requirements and have been fully considered in accordance with current surplus property procedures with no alternative internal use identified. The assets are deemed non-strategic and their release will not only reduce the Council's liabilities and generate capital receipts but also provide opportunities for development by third parties. The list at Appendix 3 also includes surplus properties from the Operational Portfolio (see 3.18 below). Plans of the properties are attached as Appendix 4.
- 3.12 Whilst some assets will be sold in isolation, others will be packaged with adjoining properties which are already declared surplus via previous reports to Cabinet to maximise development potential.
- 3.13 It is proposed to produce a City Council Property Prospectus which will detail surplus assets on a quarterly basis (from the Operational as well as Investment portfolio) so not to flood the property market. A number of the sites listed in Appendix 3 will be included in the first prospectus which will be launched in November 2018 – a draft is attached as Appendix 5. Other assets will be advertised in further prospectus to fit in with wider area planning initiatives,

including development of infrastructure. Further prospectus will be the subject of future Executive reports.

Project 2 – Industrial Estate Portfolio

3.14 A package of twelve estates from the City's industrial portfolio has been shortlisted to take to the open market as an investment opportunity. A strategy detailing the options with recommendations as to the most advantageous solution for the city will be produced as part of the services to be undertaken by the external property advisor. The outcome will be subject to a further Executive report.

The strategy will consider all options including procurement of a joint venture partner. Through the joint venture structure the Council could: attract an upfront capital sum; continue to attract the passing rent (plus inflation); and benefit from a profit share of future increases in rent once the joint venture partner has made improvements through capital investment to agreed timelines. Disposal of the industrial estates will take advantage of the current heat in the Industrial property market. A plan of the estates is attached as Appendix 6.

Growth and Development and Community project:

3.15 The Council is already delivering a number of major projects to promote growth e.g. Peddimore and Smithfield developments.

Project 3 - Jewellery Quarter: support for incubation/growth of creative industries;

3.16 In addition to the disposal of surplus properties in the JQ by sale of long leaseholds and freeholds it is proposed to explore a project to encourage the retention of local talent and skills, relocation in to the region of creative industries and preserve heritage and emerging culture. This will help address the dissipation of creative industries in the JQ. The Council has been approached by a consortium who wishes to invest in the area to re-energise the unique creative cluster to benefit the region and to develop an innovative network which links social housing, support services and creative workspace. Detail of the project will be the subject of a future Executive report.

Operational and Community projects:

3.17 To meet the Council's financial budget requirements service areas have been charged with reviewing the necessity to use properties to deliver services. A number of assets have been identified which are surplus to requirements. These will be included in the Property Prospectus (as described in 3.11 and 3.13 above) which is attached as Appendix 5.

Project 4: Public Service Hubs

3.18 To enable further rationalisation of the Operational Portfolio, and to support the move towards devolution and localism a comprehensive review has been commenced to research the feasibility of Public Service Hubs which will identify

opportunities for local multi-use services by both the Council and third parties – including other public estate bodies (e.g. the Police, the NHS etc.). A number of Council properties which provide single use services have been identified for disposal. This work stream will be developed and be the subject of a future Executive report.

4 Options considered and Recommended Proposal

- 4.1 The Property Strategy is the core real estate planning and performance document for the Council. The 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 is experiencing a major revitalisation with its property market buoyant and growing across all sectors. The opportunities to utilise our property portfolio to support the achievement of our ambitions for the City are significant. The Property Strategy and first phase projects will enable us to harness these assets to best effect.
- 4.2 To do nothing and continue to manage the Council's real estate without a formal strategy would mean a piecemeal approach to the management and utilisation of our property portfolio. A piecemeal approach would miss the opportunity to maximise commercial and social returns and fail to ensure development and inclusive economic growth which will underpin the social fabric of communities across the city.
- 4.3 To prioritise commercial returns or concentrate purely on community benefits would miss out key drivers and fail to deliver a balanced strategic approach.
- 4.4 To delay the first phase projects would result in the following missed opportunities: to take advantage of the buoyancy in the Industrial property market; to maintain or grow income, and drive capital receipts; to attract third party investment in City properties; to protect heritage assets and historic industries; to provide in time the necessary budget savings required by the Council.
- 4.5 To prioritise other assets: the assets included in the first phase projects have been chosen to meet prioritised outputs following research and careful consideration of the Property Strategy objectives. To prioritise other assets would fail to meet the prioritised outputs.
- 4.6 It is recommended to implement the Property Strategy and first phase projects without delay.

5 Consultation

Property Strategy document:

- 5.1 The Property Strategy has been developed via ongoing individual and group consultation with officers from the Economy, Place, Children & Young People, and Adults Social Care & Health Directorates – including legal and finance

officers. The draft Strategy was shared with the Leader of the Council and other officers and Cabinet Members in July and October 2018. Comments were recorded and fed into the final version of the Strategy.

This report:

- 5.2 The Cabinet Member for Finance and Resources has been consulted regarding the contents of this report, and is fully supportive of it proceeding to an executive decision. Officers and Councillors including Opposition Leaders have been consulted, and have approved the report content.
- 5.3 Ward members affected by the disposal of surplus properties have been consulted. Their comments are recorded in Appendix 3.
- 5.4 Relevant officers from the Economy, Place, Children & Young People, and Adults Social Care & Health Directorates have been involved in the preparation of this report and support its proposals. Officers from Legal Services, Procurement and City Finance have been involved in the preparation of this report.

6 Risk Management

- 6.1 Reputational risk: There is a reputational risk the Council is seen to be selling large assets or numbers of properties for tactical and profit-making purposes rather than recognising the disposals as part of an overall strategy to use the City's property assets to full advantage. Similarly the rationalisation of Operational Property could be seen to adversely affect service provision. – Press releases will be utilised to explain the balanced approach of the Property Strategy, and staff and members will be fully engaged and briefed accordingly.
- 6.2 Insufficient resources: Non-delivery or delay in delivery of initial savings due to the lack of internal resource to carry out initial performance analysis of the existing estate whilst maintaining delivery of usual business practice will be mitigated by commissioning external professionals, both legal and property specialists. – Funds have been identified for this purpose.
- 6.3 Inability to meet property market timelines: Non-delivery or delay in delivery of rationalisation may occur as a result of the impact of the existing governance process. – In order to mitigate this risk, changes to existing processes have been proposed including increasing financial delegations as detailed in section 7.2 below
- 6.4 Interim reduction in existing rental income: The disposal of assets to generate capital receipts to reinvest and acquire new stock at various points throughout the implementation period will impact existing rental income – resources to mitigate this reduction in income are proposed through the 2019+ Budget Process – e.g. financial planning and resource management, and potentially through borrowing.
- 6.5 Disruption of services: during and after rationalisation of Operational property: - This will be mitigated through the development of detailed plans and project

management discipline from inception of the rationalisation and relocation programme.

- 6.6 Lack of market appetite for disposals or investment opportunities: This will be managed by adopting a tailored approach to negotiations and a flexible approach to the upfront self-market testing and associated promotional activity, nature of returns and delivery structures to meet our overall objectives.
- 6.7 The unpredictable nature of the property market and the impact of Brexit upon the economy are as yet unknown. Regular reviews of projects and performance will be maintained and associated delivery plans will include mitigation options.

7 Compliance Issues:

7.1 How are the recommended decisions consistent with the City Council's priorities, plans and strategies?

- 7.1.1 The Property Strategy is aligned with the strategic outcomes outlined in the Council Plan 2018-2022 – to create a city of inclusive growth where every child, citizen and place matters. The Property Strategy will help 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.
- 7.1.2 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.
- 7.1.3 The Property Strategy takes a medium to long term strategic approach to how we utilise our unique asset base and will ensure a balanced delivery of maximised commercial and social returns. Re-aligning the City Council's property will provide a catalyst for development and underpin the social fabric of communities across the city.
- 7.1.4 Delivery of the Property Strategy objectives will include reference to other Council policies in line with the Policy Framework – including financial, planning, infrastructure, housing, jobs and skills, sports, culture, social cohesion and neighbourhoods – ensuring a 'one council' approach is adopted.

7.2 Legal Implications

- 7.2.1 The power to hold, appropriate and dispose of land is contained in Sections 120 and 123 of the Local Government Act 1972.
- 7.2.2 S1 of the Localism Act 2011 contains the Council's general power of competence and S111 of the Local Government Act 1972 contains the Council's ancillary financial and expenditure powers in relation to the discharge of its functions including the disposal and acquisition of property.

Delegations

- 7.2.3 In order to support effective and timely delivery of the Property Strategy it is proposed to recommend to the Council Business Management Committee to put forward a motion to Full Council for approval to the increased 'property' delegations financial thresholds for the both the Chief Executive and the Corporate Director Economy alone and to the Chief Executive and Corporate Director Economy jointly with the Leader in consultation with the Corporate Director Finance and Governance. Delegations will be reviewed every three years in line with the Property Strategy.
- 7.2.4 In Part B Appendices of the Birmingham City Council Constitution - Adopted May 2018 / updated September 2018 – (the Constitution) Section 13 details 'Delegated Authority to Chief Executive and Chief Officers (Corporate Directors)'. Section 13 (i) details the decisions and expenditure approvals relating to Directorate functions. Section 13 (vii) details the additional powers to the Chief Executive and Corporate Director of Economy to make decisions in relation to property. It is proposed to recommend the additions and amendments which are highlighted in the attached Appendix 7.

Key Decisions

- 7.2.5 One of the proposed recommendations to change delegations gives powers to the Chief Executive or Corporate Director Economy jointly with the Leader in consultation with the Corporate Director Finance and Governance to acquire and dispose of freehold and leasehold interests at a premium, where the premium is between £1m and £5m. Decisions in excess of £1m in value are defined as key decisions in the Constitution. Currently the ability to make key decisions rest with Cabinet unless Cabinet delegates to a Cabinet Member jointly with a Chief Officer or a Chief Officer or Director alone. It is proposed section 4.3 (ii) of Part B Appendices of the Constitution is amended to enable delegations granted under section 13 (vii) to make key decisions (see suggested wording as highlighted changes in Appendix 7).

7.3 Financial Implications

- 7.3.1 The Property Strategy is focused on making best use of the City's assets and providing greater financial return to support Council priorities – whether directly through income by maximising the net position, or indirectly contributing to the wider City Council savings and social value.
- 7.3.2 Income generated from property will be treated in accordance with the Capital Board and Treasury Management guidelines. An Investment Property Strategy report will be produced annually for approval by Cabinet.
- 7.3.3 The new framework of portfolios will allow rationalisation of the assets in a more targeted way allowing focus on assets for pure investment reasons; and releasing properties not suitable for investment or operational purposes in return for capital receipts or social value.

7.3.4 Rationalisation of the property portfolio will initially result in a reduction in revenue but increases in savings and capital:

- A reduction in financial revenue from the Investment portfolio will occur due to the sale of revenue generating properties. It is anticipated a small dip will occur in year one, followed by a more substantial dip in year two before delivering growth in years three, four and five. By year five it is anticipated the Investment portfolio will deliver medium growth in gross income (including inflation) – with total returns annually in line with property market conditions
- Savings and capital receipts from decommissioning and disposal of operational property will take effect from year one. Capital receipts will reduce but savings will accumulate over the five year period.
- An in-depth review of the legal status and negotiation with third party tenants of properties in the Community portfolio is required before savings or income growth can be predicted.

7.3.5 Planned Property Asset Management and Delivery Plans for each of the four theme portfolios will enable more specific financial forecasting over the medium and long term of the Property Strategy. Further details of current budget projections are detailed in the accompanying private report.

7.3.6 It may be necessary to borrow funds to take advantage of opportunities in order to meet short timescales driven by the property market. Options will be explored with the Capital Board, including 'Invest to Save'.

7.3.7 In order to support effective delivery the following changes to financial management are required. Service areas have historically been allocated budgets for expenditure and income from properties they hold. To enable more efficient and effective budgetary control it is proposed to bring these budgets under a central budget controlled by BPS. Transfer of budgets will only apply to properties in the Investment portfolio.

7.3.8 Capital receipts from disposals of assets currently classified within the investment portfolio, which are deemed to no longer meet the new Investment Portfolio 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 subject to approval by Cabinet of the planned investment portfolio activities as set out in the annual Investment Property Strategy report. Where such capital receipts are not approved for subsequent re-investment in the Investment Portfolio, either in whole or in part, should there be any impact on the budgeted revenue income stream this will be considered as part of the annual approval process.

7.3.9 Extra financial resources will be required to deliver the increased levels of external legal and property advice required to deliver the Property Strategy outcomes - as described in section 7.5 below. Details of the predicted

financial resources required over the first four years are recorded in the private version of this report.

7.3.10 Where properties to be sold are within the Housing Revenue (HRA) appropriate adjustment will be made to the capital financing charge to the HRA.

7.4 Procurement Implications (if required)

7.4.1 The procurement strategy for the external legal and property advice that is of a transactional nature will be detailed in the delegated report(s) to the Corporate Director, Economy, the Director of Commissioning and Procurement, the Corporate Director, Finance and Governance (or their delegate) and the City Solicitor (or their delegate). This will detail the procurement route in accordance with the Procurement Governance Arrangements and include carrying out a procurement process advertised on OJEU, Contracts Finder and www.finditinbirmingham.com or a further competition exercise using a collaborative framework agreement.

7.5 Human Resources Implications (if required)

7.5.1 Birmingham Property Services has undergone a service redesign to support delivery of the Property Strategy. The initial increase in activity required to achieve the objectives will require additional resources on a temporary basis. External professional property agents and legal staff will be commissioned as required for this purpose.

7.6 Public Sector Equality Duty

7.6.1 The Property Strategy is a policy document setting out the strategy principles associated with property assets and at this stage there are no specific implications. An Equality Assessment Ref No. EQUA124 dated 25th September 2018, is attached as Appendix 8. The assessment confirms there is no adverse impact on the characteristics and groups protected under the Equality Act 2010 and a full Equality Assessment is not required for the purpose of this report. However dependant on how Directorates deliver their services going forward, they will need to set out and identify the impacts on their service based on implications on the communities they serve. It will be at this stage Directorates will be required to undertake full Equality Assessments as necessary.

8 Background Documents

8.1 Relevant officer's files save for confidential documents.

8.2 List of Appendices accompanying this Report (if any):

- 1. Property Strategy Summary
- 2. Property Strategy 2018/19-2023/24
- 3. Properties surplus properties and ward member comments
- 4. Plans of surplus properties

- 5. Sites Prospectus
- 6. Plan of industrial estates portfolio
- 7. Proposed Changes to the Constitution
- 8. Equality Assessment