

**SCRUTINY COMMITTEE  
9 NOVEMBER 2020**

**VIABILITY OF COUNCIL OWNED COMMERCIAL PROPERTY**

**Cabinet Member(s):** Cllr Bob Evans, Deputy Leader & Cabinet Member for Housing and Property Services.

**Responsible Officer:** Andrew Busby, Group Manager for Corporate Property and Commercial Assets.

**Reason for Report and Recommendation:** To provide the scrutiny committee an update on the viability of Council owned commercial property and for the report to be noted.

**Financial Implications:** There are ongoing finance implications with owning Commercial Property. Please refer to para 4.0.

*Approved by Finance: [yes/no – include name/post title, eg Group Manager for Financial Services]*

**Budget and Policy Framework:** As stated on the Capital Strategy Asset Management Plan 2016-2020 the tenanted non-residential property (TNRP - commercial estate) provides rental income to support expenditure and also fulfil socio-economic policy objectives. TNRP also has a cost. The relative pro's and con's need to be challenged and reviewed.

*Approved by Finance: [yes/no – include name/post title, eg Group Manager for Financial Services]*

**Legal Implications:** Assets may have been acquired or developed under particular legislative control and change of use of disposal may not be readily achieved and this must be part of any review. Any new lease or a renewal is checked by our internal legal services.

*Approved by Legal: [yes/no – include name/post title, eg Group Manager for Legal Services]*

**Risk Assessment:** The Council has legislative duty to ensure compliance with physical and operational elements of the estate. Non-compliance carries risk. Reliance of income to support budget is also a risk as it is not guaranteed.

*Approved by Performance/Governance: [yes/no – include name/post title, eg Group Manager for Performance, Governance and Data Security]*

**Equality Impact Assessment:** There is no negative impact to equality with this report.

**Relationship to Corporate Plan:** Property assets are linked to the delivery, vision and priorities of the Council. The way that the Council manages its land and property assets has a direct impact on the quality of services delivered, as well as maximising the value derived from our property holdings for the on-going contribution in balancing the Councils budget. To maximise the value derived from all Council property for its stakeholders, by delivering an efficient and fit for purpose corporate property solutions service.

**Impact on Climate Change:** When the council re-let a property the council carries out checks to ensure it is re-let at the appropriate energy rating. And this features in our ongoing work programme. This approach also supports our climate agenda.

## 1.0 Overview

- 1.1 The Corporate Property and Commercial Assets (CPCA) service provides corporate and commercial accommodation/premises for the services within the Council, its business and acts as the Client on construction elements of the property capital programme. The CPCA are responsible for ensuring statutory compliance of the estate and undertake a broad range of estates management, strategic asset management, business and energy management activities.
- 1.2 The overall objective of the Council in the management of its property portfolio is to utilise and manage its commercial property in accordance with the principles of Best Value; so as to enable high quality services to be provided to our tenants.
- 1.3 Our commercial portfolio is varied and assets have been made available for a range of uses, such as; the potential to contribute to future regeneration schemes, provide employment, or to retain control over property use. In addition, some properties in the portfolio provide valuable revenue income such as the Market Walk and Fore Street Tiverton properties.
- 1.4 The latest plan in relation to commercial assets is the Asset Management and Capital Strategy Asset Management Plan 2016-2020 which reflects current corporate priorities and business objectives. There are sound governance arrangements with involvement of senior officers and members of the Council who sit on the Capital Asset Management Group (CSAG) and the overall monitoring of the asset management initiative is the responsibility of Cabinet. The Asset Management Plan (AMP) seeks to ensure that assets are used in the most effective and efficient way to support the delivery of the Corporate Plan.
- 1.5 MDDC has a robust Asset Management Framework in place. Although the current Capital Strategy Asset Management 2016 -2020 is in the process of an update (the 2021-2024 issue is currently in preparation), this does not detract from the existing overarching principles. Governance arrangements and monitoring processes are clearly defined within the current Capital Strategy Asset Management. The Strategy also demonstrates links to Corporate Plan, the Medium-term Financial Plan, the Council's approved Capital Programme and the Business plan for Corporate Property and Commercial Assets, and a high level of assurance can be placed on the framework in place to ensure that assets are managed effectively.

## 2.0 Introduction

- 2.1 The Council own commercial property in the form of shops, offices and industrial units in Tiverton and Cullompton.

- Ground floor units with HRA residential over, local convenience stores and a launderette in HRA residential areas in Tiverton.
- Market Walk shopping precinct with offices over in Tiverton town centre.
- Shops and residential units in Fore Street Tiverton.
- Offices in Tiverton town centre
- Restaurant/ cafés in Tiverton Town Centre.
- Industrial unit site in Tiverton (long established use as pre-mix concrete plant)
- Industrial units in estate in Cullompton.

Annex 1 (A B and C) provides a list of our commercial property. Please refer to the restricted Annex 4 for further details.

2.2 Much of the estate is understood to be held historically for socio-economic purpose. More recently acquisitions have been established with a more overt commercial intention to generate income and to influence and enable redevelopment and regeneration.

2.3 Income from the estate is now more an essential source of funds to support delivery of statutory services.

### **3.0 Occupation and income**

3.1 At the time of reporting this report occupation levels are generally good with only a single vacant retail unit outside of Market Walk with interest to have that unit re-occupied.

3.2 Market Walk has its challenges being a town centre location with corresponding higher rental expectations. At the time of this report there will be a single large vacant unit with unfortunately another closing down and its future unknown.

3.3 Occupations levels are holding up during COVID-19. Many tenants have received grants and some have rent holidays with agreed payback terms. Income levels remains as projected.

### **4.0 Value of estate and income**

4.1 Please refer to the restricted paper for this detail

### **5.0 Internal Audit Report – Commercial Rents February 2020**

5.1 An extract from the external audit of the management is attached as part 2.

5.2 Our Asset Management Strategy Audit had reviewed the Capital Asset Strategy Plan and found that the controls in place to ensure that asset management is managed and monitored effectively in line with the strategy, operate to a high standard.

5.2 The performance of the Commercial assets is reviewed by the councils Capital Asset Management Group (CSAG) and is comprised of Members,

Leadership Team (including the Deputy Chief Executive, S151 Officer), Senior Management in Service areas, Legal Services, and representative from the Finance Department. This group of representatives is responsible for ensuring effective liaison on asset management issues across the Council, and to also ensure that assets are being managed efficiently. A review of the meeting minutes found that regular progress updates were provided by the Group Manager for Corporate Property and Commercial Assets (CPCA), and other officers, at each meeting; actions were allocated to named officers and outcomes were reported. These procedures comply with the AMP&CSP and give a high level of assurance of a corporate approach to proposals effecting the Council's land and buildings.

- 5.4 The Corporate Property and Commercial Assets (CPCA) service is responsible for managing a wide range of Council assets, which have a net value of approximately £40 million. These assets include land, property, car parks, industrial units, shops, sports centres, public conveniences, and listed buildings.
- 5.5 The Council's portfolio can be split into three main areas and in focus here is:  
- tenanted non-residential property. This part of the portfolio is varied and assets have been made available for a range of uses; such as the potential to contribute to future regeneration schemes, provide employment, or to retain control over property use. In addition, some properties in the portfolio provide valuable revenue income such as the Market Walk and Fore Street Tiverton properties. 2019/20– Income forecast £709,150 at budget setting (includes property, bereavement and parks and open spaces).
- 5.6 Please refer to the restricted paper for this detail
- 5.7 The CSAG regularly reviews asset ownership through an assessment of efficiency, effectiveness and affordability. This has given assurance that this part of the estate is fit for purpose. Assets that do not fulfil the Council's strategic priorities and/or do not provide a positive rate of return, could be sold or transferred to Town and Parish Councils. Officers confirmed no commercial properties sold/ transferred to Community ownership during this fiscal year.

## **6.0 Understanding Viability**

- 6.1 Measuring the viability of the estate can relatively simply be calculated on the basis of Internal Rate of Return. This measure has previously been used when the the Council was required to submit a suite of property performance indicators (pPI) to the former Audit Commission. It is recommended, in-line with proposals for performance indicators generally, that this is reintroduced. Detail of previous pPI in Annex 3.
- 6.2 Other things to consider with TNRP.
- To understand why the asset is held
  - Who is the asset owner
  - What is expected of the asset
  - Who is accountable for performance
  - How is performance measured

## 7.0 Performance measurement

7.1 With no clear basis for ownership in many cases, other than assumptions of historic decisions, performance could be a measurement of or a selection/ combination of

7.1.1 For wider economy:

- Jobs created
- Economic output
- Number of small businesses supported
- Number of businesses relocating
- Local people employed
- Numbers re-employed
- Tenants moving on to larger premises
- Length of time as tenants
- Inward investment
- Rising property value

7.1.2 For small business

- Number of tenants moving on to larger premises
- Business sustainability/ longevity
- Growth in employed staff
- Growth in profits

7.1.3 For town centre

- Economic output
- Voids
- Retail taking
- Longevity
- Rent buoyancy
- Condition assessment

## 8.0 Challenge and Review

8.1 An appraisal will compare outcomes to a baseline and to enable a judgement to be made on value and inform decision on future TNRP strategy.

8.2 It is recommended that as an integral part of the Capital Asset Management Plan that CSAG with the Growth, Economy and Delivery Team undertake regular reviews of those properties identified as TNRP to understand and introduce a KPIs for measuring the on going performance of the estate.

**Contact for more Information:** Andrew Busby Group Manager for Corporate Property and Commercial Assets [abusby@middevon.gov.uk](mailto:abusby@middevon.gov.uk)

**Circulation of the Report:** Cabinet Member seen and approved [yes/no – name of Cabinet Member], Cabinet, Leadership Team seen and approved [yes/no]

**List of Background Papers: Capital Asset Strategy Management Plan 2016-2020, Audit Report – Commercial Rents February 2020 (as Annex 2)**