

Committee(s)	Dated:
Epping Forest & City Commons Committee Hampstead Heath, Queens Park, Highgate Wood Open Spaces and City Gardens West Ham Park Planning and Transportation Port Health and Environmental Services Department of Community and Children Services	9 th November 2015 23 rd November 2015 7 th December 2015 7 th December 2015 15 th December 2015 24 th November 2015 11 th December 2015
Subject: Operational Property	Public
Report of: The Chamberlain and the City Surveyor	For Information

Summary

The Operational Property Review is a cross-cutting Service Based Review which is taking a more strategic view of the operational assets the City of London Corporation has, with the aim of identifying opportunities to rationalise the Corporation's operational property portfolio and reduce the high and rising cost of property. The general fabric and condition of many of our operational properties is starting to deteriorate which impacts negatively on the experience of the users of those properties and the Corporation's reputation as a consequence.

Operational assets are an essential means by which the City of London Corporation provides the best possible services, whether through its statutory Local Authority functions, Charitable duties and responsibilities (e.g. Open Spaces), or supporting and promoting The City as the world leader in international finance and business services.

Through this review, we aim to tackle the £40m 'bow wave' of maintenance costs we are currently pushing out year on year across all City of London Corporation assets. Ensuring property assets are efficiently managed and maintained, represent value for money in supporting service delivery and are fit for purpose is an important strand in improving efficiency and productivity.

The first phase of workshops covering Departments with the most significant operational properties, have been held over the period April 2015 to June 2015. Workshops with the Markets and Consumer Protection, Open Spaces, Community and Children's Services (DCCS) and Built Environment (DBE) Departments have strategically reviewed their operational properties and the work has identified potential opportunities in the short, medium and longer term to enable rationalisation and/or more effective utilisation of existing property assets. The following key themes of opportunities have emerged:

- Housing – commercial units, in-fill and residential development opportunities
- Car parking- review of overall provision
- Rationalising Central London staff accommodation to release surplus space or potentially buildings
- Rationalising Local offices, workshops and storage facilities
- Rationalisation of similar facilities, e.g. ports
- Staff residential accommodation
- Redundant property which should be demolished

Recommendation

The Committee are asked to:

Note the drivers for undertaking the Operational Property Review and that the emerging opportunities from this review that impact on the work of this Committee will be reported to subsequent meetings.

Main Report

Background

1. Last year Corporate Asset Sub Committee requested a review into how well our property assets are maintained. Until this point there was no comprehensive picture of the management of the operational estate. The review established that there is a funding gap each year, compounding and creating a cumulative shortfall of funding for cyclical maintenance and renewal. Effectively this is creating a £40m 'bow wave' of postponed maintenance costs which we will, at some point, need to meet. This funding gap is unsustainable in the long term.
2. It is estimated that the unfunded cyclical building maintenance and renewal costs of the existing Operational Property Portfolio over a 20 years is circa £159m. **Appendix 1** provides a diagrammatic representation of these unfunded costs. The unfunded element is particularly large in 2015/16 due to the items which have been deferred in order to reduce the 2014/15 Building Cyclical Works Programme (formerly known as the Additional Work Programme). In effect, only very high priority work is being funded, predominantly relating to Health & Safety issues and equipment which is at a very high risk of failure. As a result the general fabric and condition of many of our operational properties is deteriorating which impacts negatively on the experience of the users of those properties and the Corporation's reputation as a consequence.
3. This work has also exposed that the current management of operational property assets is fragmented. Ensuring property assets are efficiently managed is an important strand in improving efficiency and productivity. Effective asset management requires an organisation to maintain its operational asset portfolio; ensuring assets are efficiently managed and maintained, represent value for money in supporting service delivery and at the end of their useful economic life

are renewed/replaced or the need for the asset reconsidered. The management of property assets should accord with the Corporate Asset Management Strategy which aims to manage operational assets effectively, efficiently and sustainably to deliver strategic priorities and meet service needs.

4. This review work has been undertaken within the context that operational assets are an essential means by which the City of London Corporation provides the best possible services, whether through its statutory Local Authority functions, Charitable duties and responsibilities (e.g. Open Spaces), or supporting and promoting The City as the world leader in international finance and business services.
5. As part of the review, the suitability of the existing operational assets were considered from the perspective of whether the existing property asset portfolio were fit for purpose, in terms of location, functionality and condition. By reviewing the existing asset portfolio, any financial efficiency from rationalisation and more effective use of property can then be used to improve the quality and upkeep of the operational property portfolio in the future, and as a result support the continuation of the best possible service for the public.
6. Whilst the City of London Corporation's overall financial position is strong in terms of its balance sheet assets, delivery of its strategic and operational aims is achieved through the income it generates from those assets. The financial revenue forecasts for the City of London Corporation have to be set in the context of large reductions in central government funding and the expectation of future grant reductions for the foreseeable future.
7. The City of London Corporation is currently delivering a £20m Services Based Review to deliver significant and sustainable savings in order to balance the budget over the medium term; on both its City Fund and City Cash Services. There are restrictions over the operation of the City Fund which limits the use of assets to fund on-going revenue expenditure on our property asset portfolio. For instance it is forbidden for City Fund property assets to be sold, with the proceeds used to support the revenue position. A similar strategy is applied to City's Cash assets.
8. This means that while the Corporation may be perceived as a 'wealthy' organisation from the property assets that it holds, those assets are aging and require increasing sums to be spent on maintaining them. The revenue envelope available to fund these annual costs is reducing, resulting in a pressure to ensure that the estate is as streamlined as possible.
9. Reviewing and rationalising the operational property estate is one of many approaches to driving savings and efficiency, and has been an important approach adopted across the public sector as a whole within the current era of austerity. Whilst, the City of London Corporation does not face the extremes of financial pressures faced by the public sector, it does have a clear obligation to use the public and charitable resources at its disposal in the most effective and efficient way so that it is able to sustain the high quality services and obligations it has for current and future generations.

Operational Property Review

10. A cross-cutting Service Based Review was initiated to take a more strategic view of the operational assets the City of London Corporation has, with the aim of:-
 - Investigating the current utilisation of assets – do they provide value for money?
 - Investigate current and future property requirements
 - Identifying opportunities to rationalise the Corporation's operational property portfolio and reduce the high and rising cost of property.
11. As part of operational property review, Chief Officers were asked to review their operational asset base portfolio through a series of workshops to identify opportunities for rationalisation and improved efficiency. The aim has been to identify proposals for property rationalisation which are likely to deliver the greatest Value For Money (VFM) benefits. This work has necessarily been undertaken with full consideration of the reasons why property assets are held, how they contribute to service provision and what restrictions apply over their use.
12. The first phase of workshops covering Departments with the most significant operational properties, have been held over the period April 2015 to June 2015. These discovery workshops focused on the Markets & Consumer Protection, Open Spaces, Department of Community and Children Services (DCCS) and Department of Built Environment (DBE).
13. A further workshop was held at the end of October 2015, to review corporately, ways of working and Central London office accommodation (covering Guildhall, Irish Chambers, Walbrook Wharf Offices, and Lauderdale Place (DCCS/Barbican Housing office). This workshop, linked to the existing Guildhall Accommodation and Agile working projects explored opportunities to adopt more effective and efficient working methods through better use of space, adoption of flexible and more modern working methods enabling the rationalisation of central London office accommodation. An appetite to progress these modern ways of working and use of accommodation was confirmed and a workstream has been initiated to develop this programme of work.
14. The review did not consider the Barbican and Guildhall School or Music and Drama (GSMD) assets as these are currently being considered within the Cultural Hub Project, nor Police Accommodation where a separate review and rationalisation process has already been well established. Some of the emerging property asset rationalisation opportunities do have the potential to support the City's targets to increase Housing provision.
15. The first phase of workshops is now complete. These workshops, along with significant preparation work by Departments in collaboration with the City Surveyors and Chamberlains Department, have reviewed at a strategic level the operational properties occupied and operated by Departments. The aim of the workshops has been to identify proposals in the short, medium and longer term to enable rationalisation and/or more effective utilisation of existing property assets

to support high quality services. As a secondary benefit, this review work is assisting in the cleansing of the City's operational property records.

16. The following key themes of opportunities have emerged:

- Housing – commercial units, in-fill and residential development opportunities
- Car parking- review of overall provision
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17. Opportunities identified in some instances entail the relocation of people and operations, with resulting costs in order to facilitate the freeing up of property assets. Proposals that have been identified from the workshops have been prioritised to identify those opportunities which are likely to deliver the greatest value for money (VFM) benefits. Some of the emerging opportunities should also result in a better service provision through improving the accessibility of staff to service users.

18. Where a property asset is no longer required, disposals can be considered and achieved through freehold sale or the grant of leasehold interests for short or lengthy duration, subject to any statutory provisions limiting that ability.

19. Freehold sales mostly divest complete control, imposing covenants or restrictions on future use are invariably very difficult to achieve in practical terms. Leasehold disposals enable landlords to retain control because they still maintain an interest in the property, but that level of control generally diminishes as the length of the grant increases. Long leases can achieve premiums which are close to the freehold value, providing that any restrictions are not overly onerous.

20. It is likely that the City of London Corporation would need to consider disposal options on a case-by-case basis to assess the merit of individual circumstances. There are going to be a variety of circumstances where disposal is being considered, that will have a bearing upon the preferred disposal method, the outcome that the Corporation desires and its powers to deal with any given asset.

21. In addition to this recent exercise, some significant asset realisation opportunities had been identified from an earlier exercise to support the funding of the Corporation's Capital Programme, which includes significant investment required for the Hampstead Heath and Epping Forest Dams projects.

22. The operational property review is one strand of activity within the an overall Strategic Asset Management (SAM) Service Based Review (SBR) which also has strands of activity relating to Facilities Management, Contract Management and Project Management.

Next Steps

23. Relevant Service Committee Chairman and Deputy Chairman have been consulted on these opportunity proposals that impact on their service areas, as Service Committees have a role in declaring operational property assets as surplus. Chief Officers will be required to seek Service Committee agreement to the disposal and/or rationalisation strategies. Service Committee support will also be necessary for any rationalisation of property assets where better use of assets, e.g. through commercial sub-letting or more intensive use of assets as opposed to absolute disposal or demolition is proposed. Reports on specific opportunities will be brought to this Committee in subsequent meetings.
24. The disposal, rationalisation and more effective use opportunities across all the Committees will be considered in the round by the Corporate Asset Sub-Committee on the 24th November to ensure effective use and agree proposed disposals and rationalisation. Resource Allocation Sub-Committee on the 10th December will consider the recommendations from the Corporate Asset Sub-Committee. This reflects the responsibility of the Resource Allocation Sub-Committee to consider the impact of opportunities on the allocation of operational property resources for service delivery.
25. Once operational property is released by service committees, then assets will be passed to the Property Investment Board to consider the most advantageous route for disposal if no alternative use of the assets is determined.
26. It is then intended that a series of specific projects will then progress these proposals to completion seeking appropriate resources to facilitate rationalisation and/or disposals, and obtaining approval through current project processes.

Conclusion

27. Good progress has been made on the Operational Property Review Project. Emerging opportunities relevant to the work of this Committee will be reported to subsequent meetings of the Committee.
28. By reviewing the existing asset portfolio, any financial efficiency from rationalisation and more effective use of property can then be used to improve the quality and upkeep of the operational property portfolio in the future, and as a result support the continuation of the best possible service for the public.

Background Papers

Operational Property Review – Update report - 26th March 2015 (Public)
Operational Property Review – Update report - RASC 16th July/CASC – 28th July 2015 (Public)

Appendices

Appendix 1: Graph of Unfunded cyclical building maintenance and renewal costs

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