

# S & R Committee Paper

## Appendix E

### *Future Tandridge Programme Business Case*

<b>Project/Service</b>	Assets and Facilities Management
<b>Approval date</b>	19 <sup>th</sup> October 2022
<b>Approved by</b>	TOM Group
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Version	Date	Description of change	Author
1.0	09.09.22 & 16.09.22	Initial Draft	Jayne Roberts & Alison Boote
1.2	18.10.22	Amendments	Alison Boote
1.3	26.10.22	Review for MRG	Alison Boote

## 1. Executive summary

The Strategic Asset Management Team supports the delivery of corporate priorities through proactive management of the Council's commercial property portfolio to maximise income and community benefit. This includes properties owned by Gryllus Property Investment Ltd, the Council-owned arms-length property company.

With the continuing challenge of reductions in central government grant funding, Tandridge District council has looked at maximising its' income from property for the past few years. New flexible and mobile ways of working have expanded more quickly than envisaged due to the Covid 19 pandemic and this has brought further consideration of the operational portfolio, in particular the council offices. The land around the Council offices is in a mixture of the private and public sector. Once leases expire in approximately 5 years There is potential to comprehensively redevelop the site to create a public sector hub combined with the opportunity for affordable housing.

There is a need to focus on reorganising the current portfolio, deliver on opportunities and reduce the running costs of the remaining asset base. The priority is to generate as much additional income as possible and minimise costs – such as maintenance and costs of voids.

This Business case sets out a recommendation to review the following:

- Property roles and responsibilities within the Assets and Community Surveying team including the option for an integrated Property Service delivery model.
- A review of the property portfolio with identification of redevelopment opportunities and key assets. The portfolio will be split into segments – community, operational, regeneration, stewardship, economic growth, legacy investment, investment and those suitable for development or disposal.
- The commercial potential of our existing property portfolio will be assessed against current and future TDC needs. Opportunities are emerging from new patterns of usage of Council buildings which allow the release of commercially viable accommodation and or residential development potential.
- Market analysis and financial appraisal to determine what the appetite is for increasing the renting out of existing TDC owned offices including the council offices.

## 2. Background

The Council's Strategic Asset Management Team was set up in 2018 to deal with Asset Management, Civic Facilities and Housing Development. Asset management responsibilities were previously managed by the legal team, for a short time by Reigate & Banstead Borough Council and split between the Parks teams dealing with property in parks including Pavilions. Community Surveyors have historically dealt mainly with the social housing stock and have considerable transferable experience in compliance matters and lifecycle property maintenance programming.

Since the setup of the Strategic Asset Management Team, work has been ongoing to bring records closer together and improve compliance. Resources could be more efficiently spread by working together with the community surveyors. Resilience would be improved, and duplication avoided. There is a need for a full review to ensure all property assets and budgets are managed in the most efficient and centralised manner.

Tandridge District Council has a small commercial property portfolio which expanded between 2017 to 2019 through a small number of commercial purchases. The focus needs to be on the best use of the current asset base through development, potentially for badly needed affordable housing and disposal if appropriate.

Work was carried out in 2016-18 to upgrade the council offices to create new office suites for marketing to external tenants, let between 2018 and 2019. A 'smarter working environment' with hot desks and improved

energy efficiency helped to establish the agile working which positioned us well to progress through the pandemic. There is potential to take this further, adapting space for new occupiers in the short term and considering the longer-term future of the larger consolidated site to create a new hub for public services and affordable housing.

Excluding Housing, Investment and the main operational properties, the Council owns a number of small parcels of land and buildings with some are currently in community uses. Many of these properties have costs with negligible income. In the current challenging financial environment, there is need to review these properties to ensure that the use is the most appropriate and if it is a community building it does serve the community in the best way.

### 3. Scope and Approach

To create a fully integrated property service the option of moving to a Corporate Landlord model is being recommended. The concept of Corporate Landlord is that the 'ownership' of an organisation's land & property assets, and the responsibility for their management and maintenance, is transferred from service departments to a centralised corporate body. Service departments become quasi tenants making use of land and/or property to deliver or support a service. Such a function allows individual service areas to focus on service delivery rather than property responsibilities, improves cost efficiencies and eliminates any duplication that exists across directorates. A Corporate Landlord summary has been produced which outlines how a Corporate Landlord should/could operate in practice. **(Appendix A)**

An Asset Rationalisation Process document has been developed with PeopleToo. The process identifies how the Asset Management team will appraise our current portfolio to recommend to Members, decisions on whether to dispose/keep assets. The process is attached as Appendix B **(Appendix B)**.

The results of this process have been captured in an evolving database which will develop into a full Asset Management Strategic Plan which will concentrate on the Council's and community's needs, wider opportunities and current economic factors. All options considered, including the Council offices in Oxted will take into account the full economic life of the asset when considering costs to accommodate any changes. The return on investment has to be positive and have a reasonable payback period.

As part of the review a matrix to give a transparent score of the performance of each of these buildings is being developed. This is to tie in with other matrices used across the council to consider social value and community benefits. It is considered that as external parties are asked to contribute information to matrices for rental grant subsidies, community grants and CIL applications this process will also be applied internally. Principles will be established to consider these sites to reduce the liability on the council while allowing Communities to benefit from their use.

A summary of key roles and responsibilities within the Assets, Housing Development, Facilities and Community Surveyors teams has been collated to inform what the Corporate Landlord structure would look like for Tandridge. Any proposed changes need to be considered within the wider corporate structure and ensure that statutory responsibilities and performance expectations are met. Although the area has been determined to be under resourced and consultants have proposed a structure at a significant cost increase our initial proposals are to create a combined proposed structure within the existing overall budget which is split between the Housing Revenue Account and the General Fund.

#### 3.1. Scope

The scope of the review will consider the adoption of an integrated Property service (Corporate Landlord model). This could include a service restructure, clarifying roles and responsibilities, centralising budgets, best delivery of 'projects' and establishing service level agreements. Delivery models (including partnerships) for this approach to be considered to ensure sufficient scale is achieved.

Review Facilities operations, including facilities officers, and wider role of community surveyors and housing building maintenance team to ensure optimum delivery for FM and compliance.

Aligned to the above a demand mapping exercise against roles/responsibilities/competencies is being undertaken to ensure sustainability and that all necessary services can be delivered in full by the team.

Working with the Councils' Finance partners income received from commercial and investment portfolio is to be reviewed to ensure service charge is recovered in full, rent reviews completed, and current debt levels are reviewed. This will be work carried out alongside the review of opportunities to increase commercial income.

Agile/smarter working has reduced office space occupied by TDC Staff. This allows opportunities for renting out additional space to tenants to be maximised. A review of longer-term options for the use of the Council Offices is also to be undertaken with regard to the public uses on adjacent sites to maximise benefits. Funding from One Public Estate is being sought to carry out appraisals for refurbishment and/or redevelopment options.

Considering all aspects of property budgets in a Corporate Landlord model will ensure contracts are in place which will deliver value and consolidate spend where possible. For example, water management and monitoring, fire risk assessments, condition surveys and inspections are areas where savings could be made. All budget spend will be reviewed, with a view to progressing similar arrangements to Electricity and Gas which are centralised.

A review of the c140 properties is underway and will split them into segments to identify the assets held for operational, community, investment or regeneration purposes. Properties may be identified which can be sold or redeveloped for housing. Land, especially woodland can also be utilised for biodiversity net gain opportunities. A matrix will be developed to assess small operational and community assets. The use of the matrix will give a clear and transparent guide to community benefits and the level of subsidy by the Council.

As part of the overall review the systems used to support delivery, for example, forecasting of expiries and voids, compliance etc which are currently spreadsheet based will be reviewed.

## 3.2. Approach

**Commercial portfolio review** – To split the assets into different segments, identify current service charge recovery, debts, outstanding rent reviews etc and opportunities for further income generation.

**Matrix** - A matrix will be developed to assess small operational and community assets. The use of the matrix will give a clear and transparent guide to community benefits and the level of subsidy.

**Benchmarking** – Current performance to be benchmarked and opportunities identified including – FM contracts, Energy, agile working.

**Member engagement** – Specific proposals would be discussed with Members to gauge appetite and to highlight risks and opportunities.

**Engagement with other Services** – Other TDC Services would be engaged to confirm alignment of proposals, and any dependencies, for example Community Surveying. This is a key part of Corporate Landlord – where the Asset Management team holds responsibility for establishing, challenging and ultimately meeting service requirements for assets.

**Supplier Engagement** – Current suppliers would be engaged to receive feedback on current models (FM contracts such as Cleaning, Repairs)

**Business rules/SLAs/Processes** – Undertake gap analysis to identify current gaps in 'business rules' to ensure clarity on expectations between services on roles and responsibilities.

**Develop potential revised delivery model** – Using the outcomes of the above, develop a potential delivery model for the component services.

**Functional Structure** – Using the proposed delivery model, develop a revised functional structure to deliver the services.

### 3.3. Dependencies/impact assessment

There is a dependency on the wider service reviews and what that may mean in terms of the number of staff we employ and where they might be accommodated. We need to ensure that the office space requirements are geared up towards the future need of the organisation rather than the current need. This will need to be kept under review.

In addition, the nature of the information particularly regarding grounds maintenance has delayed efficient split of costs between sites. This does not currently allow the recovery of full costs in some service charge situations.

### 3.4. Data Analysis

The salary budgets for the Asset Management, Facilities and Community Surveying teams total £944,054 and include 18 officers. One post is to be transferred to Operational services (Tree Officer to sit with grounds maintenance) and there are currently three vacancies. These vacant roles are proposed to be allocated to the new proposed combined structure, also attached in confidential Appendix C.

Their salaries are split between capital and revenue elements both in the housing revenue account and the general fund.

The move to a Corporate Landlord model has required analysis carried out on the all property related roles and budgets. The next stage is to engage with stakeholders to confirm the assets/budgets in scope, and to set expectations around service provision, if management for these assets was centralised. This work has commenced.

The areas of the budgets included are part of a confidential appendix due to commercial sensitivity. Appendix D (restricted)

To illustrate there are several areas in other front-line budgets which are property related and could be better placed under central management -

- **Maintenance (£136k)** £62k Sports and recreation, £6k in Public Conveniences, Waste £5k. Depot £25k. Car Parks £10k. Leisure and Community Grants £28k.
- **Electricity (£29k)** – £1.7k Car Parks, £8.7k Sports and Rec, £1.5K Street Cleansing, £17k public cons,
- **Water (£32k)** - £8k Parks and Open spaces, £7.5k street cleansing, £16.4k public conveniences
- **Gas (£2k)** – £2k Sports and Rec
- **Cleaning (£1.2k)** - £1.2k sports and rec

Consolidating costs into one Asset Management area in a Corporate Landlord model will ensure tighter management and generate savings moving forward as contracts and compliance issues align. Resource would be needed or re designed into the teams.

## 4. Current Service Baseline

### 4.1. Overview of existing service

The Strategic Asset Management Team support delivery of corporate priorities through proactive management of the Council's property portfolio to maximise income and community benefit. This includes properties owned by Gryllus Property Investment Ltd, the Council-owned arms-length company.

Housing Delivery Programme to meet corporate priorities by constructing affordable housing. Identify gaps in the local market and 'enable' through Registered Providers and developers through a range of housing tenures to meet current housing need within the district.

**The Four main areas of Strategic Asset Management and the Community Surveying team are currently led by the Executive Head of Communities**

**Asset Management Services** - The Council's commercial property portfolio, Gryllus Property – the Council's Investment Property Company and commercial arrangements in operational properties – park pavilions, HRA garage sites and land.

Projects – These are the main regeneration projects of Quadrant House and Croydon Rd as well as projects for other areas of Communities such as Queens Park, Public toilet refurbishments.

Asset Management maximise income and minimise voids adapting to the market conditions

Examples:

**Linden House** – A lease renewal of the whole has been agreed – although we have had to accept a rent reduction, due to market factors, the property will still bring a net income to the Council to help pay for services. By negotiating a lease renewal of the whole, we have eliminated the risk of void property costs and refurbishment costs.

**Quadrant House** – secured two lots of external grant funding to help pay for regeneration of this building, for the benefit of Caterham. The first award of external funding of just over £200,000 from Coast 2 Capital Local Growth Fund was followed by a second award of Coast 2 Capital funding totalling £4,915,000. Massive investment in the building was then possible to provide new insulation, improve the windows, create a green wall and roof terrace. We have taken a short-term reduction to the income, but the investment will enable us to generate significant returns in future, thus helping to fund services. Net rent should increase by at least £200,000 p.a. as a result of the refurbishment, which completed in early October 2022.

**Facilities Management** – Council Offices maintenance, compliance, energy management and security. The team support the occupation of council officers and the external tenants in the building.

**Housing Development** – Major programme of Housing Development. Set up in 2017 as a five-year plan. £17.5m is in construction from this original programme and a £74m extension to the programme was agreed in March 2021 which will run until 2027. The new programme extension aims for 40 homes per annum- 200 homes. The programme aims to maximise the use of Council land and anticipates the need for open market land purchases for 30% of the programme.

**Community Surveyors** – The Community surveying team give technical advice on the commercial property portfolio and the Council's housing stock of around 3,000 properties, for both direct tenants and long leaseholders of former Council owned flats. The team deals with a Capital programme totalling £4,184,000 dealing with improving council owned stock such as replacing roofs, windows, kitchens, boilers etc.

The team also manage the housing repairs framework with 7 different lots which contribute to the £991,500 budget spend along with repairs to heating systems £330,900 and repairs in void properties £470,000. The community surveyors also look after the overall cleaning contract £135,400 and external decoration contract

£401,500, as well as maintaining an existing equipment contract of £88,400 within properties - lifts, fire alarms, emergency lighting etc. They work closely with the depot to make sure all reactive repair works are carried out when they are reported in a suitable time frame.

The team are involved in statutory compliance of the housing stock currently looking at gas and electrical certification. As well as looking after the Energy Performance Certificates of the properties and managing contracts/contractors around legionella and asbestos. The team is highly experienced and commercially adept.

By bringing the expertise together in a Corporate Landlord model there will be less duplication and more resilience towards overall compliance and efficient ongoing planned maintenance.

### **Key Metrics**

Tandridge District Council - Annual Rent – c.140 properties – c £1.35m

Gryllus - Annual Rental – 3 properties c £0.9m

Initial studies carried out through the Asset Rationalisation Process

<b>Property Segment</b>	<b>Number</b>	<b>Income</b>
Operational	32	541,038
Community	112	90,992
Regeneration & Economic Growth	1	630,526
Stewardship	1	-£6
Investment & Legacy Investment	4	1,247,568
Surplus/Disposal	2 (land)	£0
<b>Total</b>		<b>2,510,227</b>

A comprehensive database giving detail behind the review, including commercially sensitive confidential information and showing the direction the data is moving towards is attached as Appendix D (restricted).

This database will show all income and expenditure, all future expenditure and will capture the social value of the portfolio. The performance of segments of the portfolio will be clearer to analyse in line with the Council's aims

## **5. Service Review Analysis**

Consideration of a fully integrated Property Service has commenced with all roles and responsibilities being identified across all areas – of Asset Management, Facilities, Community Surveyors, Projects, and Housing Development. The identification of all property related spend has included looking at where compliance efficiencies can be made.

The c. 140 properties are being reviewed and segmented into those held for different purposes – Operational, Community, Investment and regeneration. There are a wide range of community buildings e.g., Sports Pavilions, community centres, library, and museum. Investment – Gryllus and TDC properties. Regeneration – Quadrant House.

Looking for development opportunities – anticipated mainly for housing but also for community uses in parks – e.g., a pavilion was converted into a café in Whyteleafe Rec. Several buildings are now used in different ways following the pandemic and the council will ensure the best future long-term use of the Council Offices location.

If the buildings themselves are not appropriate it may be possible to increase the floor area of one building e.g., a pavilion and demolish another store rather than encroach on greenfield land.



The Asset Rationalisation Process document referred to under 3. Scope and Approach will inform the above work streams.

## 6. Key Recommendations and Proposals

Property roles and responsibilities and an integrated Property Service to include compliance in one rather than three areas. Facilities may merge with Building (Community) Surveyors to create one technical and property support team alongside Asset Management. A Change Request will be submitted to include a proposed new team structure.

Split of property portfolio into different segment areas – mainly community assets, investment holdings and operational elements. This will include Identifying key assets with commercial potential as part of asset review.

Assess these against commercial potential and current TDC needs, including whether changing TDC usage could release commercially viable assets.

Review and provide timelines and the continuation of market analysis to determine what the market appetite is for increasing the renting out of existing TDC owned offices including the council offices. A review of the current utilisation of office space will take place. Additional budget is required to erect partitioning and provide additional security and access measures to create space that can be separately let to tenants

Make decisions on the future of the assets and market either for rental or sale if necessary, in accordance with financial Regulations and the Commercial Investment Strategy.

Determine what if any specialist support is required to review the options above.



## 7. Financial Analysis

### 7.1 Financial Analysis and Profile

Savings Table £000				
Source of saving or income	23/24	24/25	25/26	Total
General Fund				
<b>Integrated property Service</b> Centralisation of cost budgets and savings through compliance economies of scale	£40	tbc	tbc	£40
Letting of space within Council offices	£50	£30	tbc	£50
Cost savings through transfer of responsibilities	£20	tbc	tbc	£20
Consolidate Facilities Management/Housing contracts	£2	tbc	tbc	£2
General Fund Subtotal	£112	tbc	tbc	£112
Total savings/income	£112	tbc	tbc	£112

Investment Table £000				
Investment required	23/24	24/25	25/26	Total
General Fund Revenue (from Budget)				
General Fund Subtotal				
Capital Investment				
Capital (potentially generated from property receipts) to be used for works to partitioning and additional hours security in the council offices in order to attract tenants.	£150			
Capital Subtotal	£150			
Total investment	£150			


Provision for capital has been included in the budget for 23/24 to improve partitioning arrangements to create new office suites for rental within the Council Offices. Feedback from the market is to create small suites and additional privacy for tenants between toilet facilities. Two marketing agents are currently instructed to market accommodation in the offices. In addition, access arrangements for external tenants are being extended.

The table below provides context on the 2022/23 Q2 forecast for a deficit in rental income from the Tandridge District Council property portfolio, that will be addressed in order to deliver the £50k saving planned for 2023/24. The final row shows the gap that will need to be addressed by the review of commercial opportunities as set out above. This additional £136k required represents a rental increase of 11.92%. This figure is achievable due to the available refurbished accommodation in Quadrant House and potential suites in the Council offices. The whole allowance for rental uplift at Quadrant House has not been included at this time due to the marketing period required.


	£000	Comments
Q2 Deficit	173	This consists of Office Services shortfall in S&R (£67k) and Corporate Items Property Income (£106k)
Less projected improvements for 2022/23	(37)	The 2022/23 impact improved between Quarter 1 and Quarter 2 by £113k and may improve further.
Less projected improvements for 2023/24	(95)	This row captures the known full-year impact of any leases expected to commence mid-way through the year.
Plus £50k additional saving for 2023/24	50	
<b>= Additional Rentals to Generate</b>	<b>91</b>	

## 8. Measurable outcomes


### 8.1 Critical Success Factors




**Financial**  
 An overall reduction in net budget of 15% by 23-24 over 18 months  
 An overall reduction in expenditure on 'Enabling and Back Office' functions of 15-20% by 23-24  
 A higher proportion of the budget is spent on 'front-line' services and the Councils priorities



**Residents and Service Users**  
 Service Users are involved in the redesign of services  
 Resident and Service User feedback and insight is used to drive service improvement  
 Residents and Service Users are directed to use the least cost channel to access Council services



**Services**  
 Service Delivery models are assessed & service delivery is undertaken by the most appropriate means  
 Service performance is measured, benchmarked and actively managed  
 Service levels are set at an appropriate level which is aligned to Council priorities



**Staff**  
 The Council has a smaller directly employed workforce  
 Managers and staff are engaged and accountable for their performance  
 Staff feel valued and motivated and understand the values and behaviours expected of them

Critical success factor	How will success be measured?
A reduction in expenditure by restructuring teams within Asset Management and Community Services	By driving efficiencies and performance. This will also be viewed alongside efficiencies in other areas as budgets grow as the area of responsibility expands

Critical success factor	How will success be measured?
Process and compliance monitoring improvement	Performance management plan to be implemented.
Increased rental income in the council offices	Additional floor area rented to other parties and recording of rental growth levels.
Asset rationalisation	Improved utilisation of all assets within the property portfolio. The scoring matrix to be developed for small assets in operational and community use.

## 8.2 Risk Assessment

Risk	Mitigation
There are financial risks of not keeping a close eye on opportunities and costs.	Close monitoring of income and expenditure.
Reputational risks with properties vacancies	Invest in partitioning to create new lettable areas and extended access to attract tenants and continue to market in the most efficient way.
Community groups and charities may be unable to contribute to properties at appropriate levels – there is a need to record and minimise costs	Continued investigation of the ongoing financial position and sustainability of each charity or voluntary group. The use of the matrix will give a clear and transparent guide to community benefits and the level of subsidy.
Commercial property market is challenging which impacts on our rental income.	Keep abreast of market conditions and use appropriate agents.

## 9. Conclusion

This Business case sets out a recommendation to review the following:

- Property roles and responsibilities within the Assets and Community Surveying team including the option for an integrated Property Service delivery model.
- A review and split of the property portfolio into operational, community, investment and regeneration classifications with identification of redevelopment opportunities and key assets.
- The commercial potential of our existing property portfolio will be assessed against current and changing TDC needs. Opportunities are emerging from new patterns of usage of Council buildings which allow the release of commercially viable accommodation and or residential development potential.
- A matrix will be developed to assess small operational and community assets. The use of the matrix will give a clear and transparent guide to community benefits and the level of subsidy.
- Market analysis and financial appraisal to determine what the appetite is for increasing the renting out of existing TDC owned offices including the council offices.

The review will introduce efficiencies in working practices and identify further opportunities to maximise the value to be driven from the Council's property assets. This will set out the strategic Direction in an Asset Management Strategy Plan and propose the structure of the team under an integrated model to be set in place after due consultation to be concluded by the end of the 22/23 financial year.

Marketing continues on all vacant office and retail accommodation. The launch of the newly completed refurbished Quadrant House office accommodation took place on 6<sup>th</sup> October.

The review will be concluded over the next two months and report back to the Strategy and Resources Committee in December 2022.

## 10. Equality

The Council has specific responsibilities under the Equality Act 2010 and Public Sector Equality Duty. Part of this is to ensure that the potential effects of decisions on those protected by the equality's legislation are considered prior to any decision being made.

Section 149 of the Equality Act 2010, provides that a public authority must, in the exercise of its functions, have due regard to the need to:

- eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the EA;
- advance equality of opportunity between persons who share a relevant protected characteristic (as defined by the EA) and persons who do not share it;
- foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

The three parts of the duty apply to the following protected characteristics: age, disability, gender reassignment, pregnancy/maternity, race, religion/faith, sex and sexual orientation. Marriage and civil partnership status apply to the first part of the duty.

The above aspects were considered in terms of the impact of the proposed change when drafting this business case document.

## 11. Appendices

- Appendix A – Asset Rationalisation Process
- Appendix B – Corporate Landlord model
- Appendix C – Restricted – Salary and Structure information
- Appendix D – Restricted – Review of portfolio and expenses