

PART ONE - PUBLIC

Decision Maker: **EXECUTIVE**

Date: **30 November 2022**

Decision Type: Non-Urgent Executive Key

Title: **Operational Property Review**

Contact Officer: Michael Watkins, Assistant Director Strategic Property
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Chief Officer: Director of Housing, Planning, Property and Regeneration

Ward: All Wards

Reason for report:

1. A review of the council's operational property has been undertaken to identify the optimal operational estate and understand the liability of it over a 10-year period together with the potential to undertake minor refurbishments where appropriate to minimise future liability. This report provides an overview of the work undertaken.

2. RECOMMENDATION(S)

Members are recommended to:

- 1) To note the contents of this report and to agree to the following recommendations.
- 2) To formally adopt the Operational Estate Strategy as detailed at 3.22 to 3.30 within this report.
- 3) To agree to Officers progressing the various Workstreams identified at 3.34 to 3.43 within this report noting that works packages once scoped and costed will then be reported to the Executive for consideration to proceed and award works packages.
- 4) To agree that the sums identified within the report are incorporated into the Capital Programme.
- 5) To agree in principle to the funding of the £3M resources identified at 3.45 to enable Officers to progress the various Workstreams and such funding to be made available from the Capital Programme.

Impact on Vulnerable Adults and Children

1. Summary of Impact: N/A
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Corporate Policy

1. Policy Status: Existing Policy
 2. BBB Priority: Excellent Council
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Financial

1. Cost of proposal: £3M
 2. Ongoing costs: N/A
 3. Budget head/performance centre:
 4. Total current budget for this head:
 5. Source of funding: Growth Fund
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Personnel

1. Number of staff (current and additional): Not applicable
 2. If from existing staff resources, number of staff hours: Not applicable
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Legal

1. Legal Requirement: Non- Statutory Requirement
 2. Call-in: Applicable
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Procurement

1. Summary of Procurement Implications: Not applicable
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Customer Impact

1. Estimated number of users/beneficiaries (current and projected): Not applicable
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Ward Councillor Views

1. Have Ward Councillors been asked for comments? As this affects all Wards individual Wards have not been consulted.
2. Summary of Ward Councillors comments: Not applicable

3. COMMENTARY

Background

- 3.1 A review of the council's operational property has been undertaken to identify the optimal operational estate and understand the liability of it over a 10-year period together with the potential to undertake minor refurbishments where appropriate to minimise future liability.
- 3.2 The review has identified that the Maintenance Liability (as identified from the Condition Surveys) over the next 10 years amounts to £82.1M and that a further £82.3M would be required to refurbish the portfolio to a minimum standard producing a total figure of £164.4M.
- 3.3 The aim of the review was to seek ways to reduce that liability down to financially sustainable level on an ongoing basis. This report:
- Identifies and recommends properties that could be released for disposal.
 - Identifies and recommends properties that will be ringfenced for feasibility to deliver housing.
 - Identifies and makes recommendations on properties that have significant maintenance liabilities or disposal values that warrant consideration of a range of options going forward, and what that might mean for service delivery.
 - Identifies and makes recommendations on property opportunities for rationalisation
 - Identifies the properties that should be retained and maintained and the associated costs of doing so.
- 3.4 There are significant risks to the Council caused by the condition of the operational estate. These include:
- Regulatory and statutory compliance.
 - Pressure on the repairs and maintenance budgets to manage an increasing and urgent reactive maintenance need.
 - The potential closure of buildings which become unaffordable to maintain.
 - Financial consequences of temporary or permanent closures as allowed for under contractual or lease terms (as appropriate).
- 3.5 A Schedule of the Properties which the Operational Property Review has considered is attached at within the accompanying Part 2 Report together with a summary of the 10-year maintenance liability and cost of basic refurbishment for each.

Condition Surveys

- 3.6 The estimated maintenance liability is based on information provided in a series of condition surveys undertaken in 2021 by the Oakleaf Group, adjusted to allow for associated costs such as professional fees, contingencies, and inflation risk.
- 3.7 However, it is important to understand that these figures are professional views based on high level surveys so to provide enough information to enable strategic decision making. Any decisions to undertake works to the estate in the form of disposals, rationalisation or refurbishment would always be supported by individual costed business cases with appropriate professional support prior to the Executive executing such decisions.

Current Economic Climate and Market

- 3.8 The Maintenance Liability and Refurbishment costs contained within this report have taken into account the current high inflationary impact and supply chain risks being experienced in the national economy and the construction industry.

- 3.9 The UK Economy is in unprecedented times; emerging from a global pandemic, the impact of Brexit, a major conflict and refugee crisis on the European continent and a global escalation of fuel and commodity costs.
- 3.10 This is having an immediate impact on the Property and Construction Supply Chain in that key components for maintenance supply and infrastructure are beginning to have longer lead-in times (having already been extended due to Covid) and energy costs rising exponentially.
- 3.11 The Council is not alone in this situation, and it is likely that a number of partner organisations will face similar issues which could result in pressures being added to the Council.
- 3.12 The following contributing factors have been considered:

3.12.1 Inflation:

The rate of headline inflation went up quickly in 2021 and it has continued to rise this year. Currently at just over 10% the OBR expect it to reach around 11% this November. It could go even higher later over the winter period into the low teens. It is expected the rate of inflation will fall considerably over the next couple of years. The OBR don't expect the causes of the current high rate of inflation to persist. It's unlikely that the prices of energy and imported goods will continue (post 2022) to rise as rapidly as they have done recently. This means that inflation will decline.

3.12.2 Building Cost Inflation:

Industry, Mayors Office and Professional Bodies are all highlighting excessive inflation due to Ukraine running at 6-8% ahead of base inflation with some schemes reporting a 12% increase. Fuel costs, raw materials and shipping major components are key drivers for this increase – with a major skills shortage in the construction sector.

The Ukrainian situation will impact even further as a) steel predominantly comes from Europe (as a result of the devastation of Mariupol) and steel prices have risen by 15-20% will be impacted together with b) diversion of infrastructure priorities to move from Russian dependence on Oil/Gas.

3.12.3 Energy Costs:

The wholesale electricity market continues to rise, there has been a reduction in available power supplies compared to last year which, combined with higher gas prices, has led to an increase in the wholesale price of electricity. An increase in network and policy costs is also pushing prices up.

3.12.4 Market Conditions:

The pandemic and other factors has also seen a reduction in supply chain skill sets with increased competition for those skills that remain within the market place. Building contractors are predominantly now only fixing tender pricing for 3 months whereas before the industry norm was 6 months. It is inevitable that contract tender returns will increase so that contractors can adequately price in risk. The cost of collateral warranties will also rise.

- 3.13 Therefore, from a property perspective it was considered prudent to inflate the OPR estimates by 25% to account for current Building Inflation and an allowance for further increases.
- 3.14 The OPR, however, took a robust approach to the pricing provided by the Council's contractors and made assumptions to provided costs to reflect contingencies, omissions and inflation over a 10-year period – therefore the sums reported are still considered valid.

- 3.16 It may be prudent to wait till after the Winter to award major contracts which can be delayed as current BoE forecasts that the headline rate could go even higher later this year into the low teens and then potentially stabilise or decrease – the risk here is that contractors will price this increase in but that has to be countered against the fact that it is impossible to guarantee that the headline rate will fall and when.
- 3.17 It should be noted that residential values are now beginning to reflect market conditions and could well fall by 10% during 2023 potentially due to mortgage lender criteria on affordability responding to the uncertainty of the economy.

Key Findings and Financial Impact

- 3.18 The review has concluded that the Maintenance Liability (as identified from the Condition Surveys) over the next 10 years amounts to £82.1M and that a further £82.3M would be required to refurbish the portfolio to a minimum standard. This latter figure is an estimated figure based on Professional published categorisation rates per SqFt and is provided as a robust figure for budgeting purposes, with the intention that all decisions are to be subject to fully costed business cases.
- 3.19 It should be noted the Maintenance Liability figure only reflects the cost of repairs and replacement of fabric, plant and machinery and does not include any allowance for betterment or improvements. The additional £82.3M therefore does provide for these aspects and therefore would bring the portfolio into an acceptable standard for the properties function.
- 3.20 The review has also identified that it cannot be self-funding; it is highly likely that the council will need to spend more on the operational estate in the next ten years than can be generated by capital receipts from within the existing operational estate. However, there are a series of recommendations contained within this report to mitigate this over-arching sum and these will be detailed further below.
- 3.21 The OPR has reviewed the operational estate to ascertain where maintenance liabilities rest the review then investigated the requirements of Statutory requirements to ascertain which category of property fell into either Statutory or Non-Statutory provision.

Statutory	Non-Statutory
Waste Depots	Churchill Theatre and Central Library
Children and Family Centres	Group 2 Leisure Centres
SEN Services	Adult Education Centres
Adult Day Centres and Care Homes	Community Shops
Cemeteries Properties	Parks Buildings

Libraries	Ground Maintenance Depots
Youth Justice Services	Youth Centres
Council HQ Offices	
Other Council Provided Services	Traveller Sites NB – Some of these sites deliver a blend of Statutory Services

Operational Estate Strategy

3.22 It recommended that an Operational Estate Strategy is adopted by the Council for use as the framework for future decision making in relation to:

Which properties are retained and invested in.

Which properties are retained and maintained.

Which properties are released.

3.23 The aims of the strategy are threefold:

To deliver fit for purpose accommodation for council services

To deliver affordable maintenance liabilities and running costs

To maximise income generation for reinvestment into council priorities.

3.24 The direction of travel is to move from the estate as it currently is (old buildings which hinder service delivery, are inefficient and have single uses) to an optimal estate (fewer, fit for purpose buildings which are flexible and accommodate multiple uses).

Strategic Objective 1:

3.25 To **rationalise** the estate used for the delivery of council services through co-location or reconfiguration of retained assets to:

- Ensure business objectives are met
- Generate capital receipts for reinvestment in the retained assets
- Reduce maintenance liabilities
- Reduce premises running costs and Carbon impact
- Reduce rent payments

Strategic Objective 2:

- 3.26 To **target investment** in retained properties in order to:
- Facilitate rationalisation
 - Unlock service transformation potential, including facilitating more efficient ways of working
 - Ensure that they are fit for purpose in the medium to long-term and energy efficient
 - Have the greatest impact on delivery of Corporate Strategy aims and objectives
 - Impact the highest numbers of residents, staff and members
 - Generate new income

Strategic Objective 3:

- 3.27 To **release** property assets that are not required for delivery of council services, income generation or high priority strategic partnerships in order to:
- Generate capital receipts
 - Release sites for delivery of affordable housing
 - Transfer assets into community ownership where the community is best placed to manage it.

Strategic Objective 4:

- 3.28 Where properties are retained for strategic partnerships but are not required for delivery of council services or income generation, to negotiate lease arrangements that **divest the council of ongoing maintenance liabilities** wherever possible.

Strategic Objective 5:

- 3.29 To **reduce reliance on physical accommodation** through agile working and alternative models for service delivery where appropriate.

Strategic Objective 6:

- 3.30 Property arrangements reflect **prudential management of the council's finances**.

Future Shape of the Operational Estate

- 3.31 To inform the discussions around the future shape of the estate, officers have undertaken engagement with the Corporate Leadership Team and their heads of service to gain a better understanding of the business need in relation to the estate over the short, medium, and long-term.
- 3.32 The outputs of these discussions have been discussed and agreed with COE and SAG.
- 3.33 There is additional work that now needs to be undertaken to inform decision making around these parts of the operational estate, and therefore it is proposed that a number of workstreams are progressed to take this forward this work, these are detailed below.

Workstream 1: Future of HQ Accommodation

- 3.34 The existing Civic Centre has a maintenance liability of circa £9.5M and the range to refurbish depending on staffing numbers ranges from £20M at 20% staff ratio to £38M to 70% staff ratio.
- 3.35 A separate Report regarding the options for the Council's HQ is on the same Agenda as this

Report. However, the basis of that report is that the Council relocates from its existing from its existing site to a new one which would then save the need to refurbish the Civic Centre and the need to clear the maintenance liability. The purchase price of the new building would be off set by the disposal of the existing Civic Centre site.

Workstream 2: Churchill Theatre and Central Library

- 3.36 The Churchill Theatre and Central Library are in effect one building and was designed as such. The condition of this asset is poor, and the maintenance liability has been estimated at £15.7M with an unknown element for refurbishment – this could well be more than £28M. At this stage further investigations have not been perused as the costs of doing so are considered prohibitive.
- 3.37 It is recommended that the Executive agree that Officers open negotiations with the Trafalgar Theatre group to see if agreement can be reached on a more sustainable future for the theatre, which, in return for an initial investment, would see the council relinquishing its liability for ongoing maintenance of the theatre.

Workstream 3: Dispose of Properties not required to deliver services

- 3.38 A separate Report regarding the options for these Disposals is on the same Agenda as this Report. However, the basis of that report is that the Council divests itself of assets which are either surplus to requirements, produce poor returns or are likely to do so and those where long lease interests could be released by disposal through calculation of marriage value.
- 3.39 These disposals are estimated to generate circa £65.8M by the end of 2023/24.

Workstream 4: Refurbishment

- 3.40 The following categories of Property will be furbished, with the estimated refurbishment cost and the savings from maintenance liability:

Description	Refurbishment Estimate	Maintenance Liability Saving
Children and Family Centres	£6.7M	£1.9M
SEN Services	£0.46M	£0.27M
Adult Day Centres and Care Homes	£12.1M	£2.5M
Cemetery Properties	£0.86M	£0.59M
Libraries	£10.7M	£2.7M
Group 2 Leisure Centres	£23M	£4.3M
Adult Education Centres		

	£7.3M	£1.3M
Parks Buildings	£17.8M	£4.5M
GM Depots	£3.3M	£2M
Youth Centres	TBC	TBC
Traveller Sites	£9M	£5M
Surface Car Parks	£1M	£1M

3.41 It should be noted that further investigative works are needed to confirm the costs of these refurbishments and as such will be reported back to the Executive as a series of costed packages for consideration to award works.

Workstream 5: Sites to be developed for Council Housing Schemes

3.43 The sites which are believed to have potential for housing delivery are detailed below, that combined they could deliver up to 200 additional affordable units with associated TA savings. However, each one will be the subject of a separate feasibility study and business case.

Property	Ward	Maintenance Liability Saving
Station Road (Bromley North)	Bromley Town	£0M
Spa Leisure Centre Car Park/Lewis House (Beckenham Triangle)	Clock House	£0.18M
Belle Grove	St Pauls Cray	£0.12M
Manofields	Orpington	£1.7M
Proverst Adult Education Centre	St Mary Cray	£3M
	St Pauls Cray	£0.2M

Cornwall Drive		
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Prioritisation and timescales

- 3.43 Due to the large scale of works required it is not possible to simultaneously deliver all of the refurbishment works at the same time.
- 3.44 The following categorisation has been proposed to the Executive to agree as to which groups of property will be treated first.
- 3.45 The Council will not undertake these works direct as it does not have a suitable resource to do so. It will in effect commission these works through a market tested contract award based on specific work packages to be developed with appropriate professional expertise and assistance from the Councils Procurement teams.

Category 1	Category 2
<p>2023/24</p> <p>Future of the HQ Estate Move (complete)</p> <p>Disposals (complete)</p> <p>Undertake scoping discussion as to the future of the Theatre with the Theatre’s operators. This would also include the Central Library.</p> <p>Scope and tender for Refurbishment Works Phase 1:</p> <ul style="list-style-type: none"> Children and Family Centres SEN Services Adult Day Centres and Care Homes Cemetery Properties Libraries Group 2 Leisure Centres 	<p>2024/25 – 2025/26</p> <p>Refurbishment Works Phase 1 Programme in delivery – anticipated 2 year Programme</p> <p>Scope and tender for Refurbishment Works Phase 2:</p> <ul style="list-style-type: none"> Adult Education Centres Parks Buildings General Maintenance Depots Youth Centres Traveller sites. <p>Refurbishment Works Phase 2 Programme in delivery.</p>

Refurbishment Works Phase 1 Programme in delivery.	
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Resources Required

- 3.45 It is anticipated that an initial budget allocation of £3M is required to support delivery of the Operational Estate Strategy workstreams. This is to fund:
- Staff resources to lead and deliver the detailed options appraisals and business cases for the eight work streams.
 - This is estimated to cost circa £850K over 3 years and would pay for 2 X Qualified RICS Capital Programme Managers (BR14 - MG6) with Admin Support (BR8) and 1 X Procurement Officer (BR13)
 - These posts would be resourced via Fixed Term Contracts
 - A budget for expert advice to inform appraisal work and scope preparation against each of the workstreams – this is estimated to be in the region of £2.15M.
 - The advice is required to prepare Schedules of Works and would mainly be undertaken via firms of Chartered Quantity and Building Surveyors.
 - This work would be procured in accordance with the Councils Contracts and Procurement rules.
- 3.46 Separate Resource requirements have been identified within the accompanying Reports on the Council's HQ Options and other Disposals for Members to consider.

Future Business Cases and Executive Approvals

- 3.47 This report seeks the Executives agreement to the approach and some specific recommendations. However, it is the intention that each Works package once scoped and costed will then be reported to the Executive for final determination to proceed and award works packages.

4 IMPACT ON VULNERABLE ADULTS AND CHILDREN

- 4.1 There is not considered to be an impact on Vulnerable Adults and Children as a consequence of this decision – other than that services will still continue to be provided from retained premises.

5 POLICY IMPLICATIONS

- 5.1 It is essential that the Council manages its assets so as to meet the Council's aims and objectives.

LEGAL IMPLICATIONS

- 6.1 The recommendations to this report are seeking authority from the Executive to agree to adopt the Operational Estate Strategy , to progress workstreams identified in the report and to add to the Council's Capital Budget
- 6.2 The Council has the legal power to hold, maintain and develop its landholdings and buildings in connection with its functions. Failure to ensure that its properties and buildings are maintained to a level to avoid risks to its staff, contractors and members of the public can lead to criminal, civil and contractual liability.
- 6.3 In terms of adding to the Council's Capital Budget, the Council's Constitution requires that any in year changes to the Budget and Policy Framework above £1M must be approved by Full Council

- 6.4 In undertaking and implementing the review it is clear that further reports and decisions will need to be made by the Executive. Furthermore, the Council must at all times comply with its legal duties including those that relate to lawful decision-making, equalities , stakeholder engagement/consultation and best value. Officers have provided within this report a table setting out statutory and discretionary functions relating to land and buildings .As the workstreams and their various strands develop, there will be further legal implications that arise which will need to be considered and advice sought as may be necessary.
- 6.5 It is apparent from this report that OES will require the engagement of specialist consultants and services and potentially certain building works will be undertaken.
- 6.6 The Public Contracts Regulations 2015 (Regulations) apply to the acquisition of works above a threshold (currently £4,269,550 excluding vat) and professional services (170,782 excluding vat). As to whether works and/or services fall within the Regulations is a matter which will require further detailed analysis and appraisal as to the recommended Procurement approach.
- 6.7 In order to progress implementation of the strategy , each procurement will need to ensure it complies with the Councils Contract Procedure Rules and internal decision-making approval under the Councils' Constitution . Officers should seek specific legal advice on any issue as may be appropriate.

PROCUREMENT IMPLICATIONS

- 7.1 The report indicates that various works may be required, related to Refurbishment or similar, but the details of these are to be determined.
- 7.2 For each individual procurement arising from this proposal, a formal decision on proceeding to procurement and subsequent contract award must be taken in line with the Councils Contract Procedure Rules and in compliance with the Public Contracts Regulations 2015. Formal consultation must take place with the Corporate Procurement Team.

FINANCE IMPLICATIONS

- 8.1 The financing of the Council's Capital Programme represents a significant challenge and a funding gap has been identified for period from 2022/23 to 2026/27. Given this any proposed capital spending during this period, will be subject to detailed business case review and affordability checks.
- 6..2 The report identifies estimated Capital Expenditure of £164M to address the maintenance liability identified by the Condition Survey and additional refurbishment works across a number of the Council's assets. A initial request to agree £3M of additional capital funding is contained within the report to support the initiation and ongoing delivery of this work.
- 6.3 Given the financial challenges faced by the Council in the funding of its capital programme, funding may entail external borrowing and the utilisation of the Council's revenue reserves.

Non-Applicable Sections:	HR
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