

Corporate Asset Management Strategy

2015-2019

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Section 1: Introduction

1. Sutton Council has a significant property portfolio and regularly reviews its Asset Management Strategy to ensure that it makes the best and most effective use of its properties.
2. At over £4.5m per annum, expenditure on property is significant. The financial outlook for the next few years (2015-2019) puts even greater emphasis on the role that property can play in the transformation of Council services and in the direct contributions it can make to the projected £38m reduction in council funding that has to be accommodated by 2018/19.
3. Strategic Asset Management is defined as the activity that seeks to align the property asset base with an organisation's corporate goals and objectives, ensuring that its land and buildings are optimally structured to best serve its corporate interest. Major changes to Council services and ways of operating are to be implemented over the next four years in order to achieve the financial savings required by 2018/19. The aim of this strategy is to set out how the Council's property portfolio and its management will change over the period to help drive the transformation of Council services and their delivery.

Scope

4. The scope of this Corporate Asset Management Strategy covers all the land and property owned by the Council. It covers in detail, operational properties that are used in discharging the Council's functions and non-operational properties i.e. properties the Council owns for other purposes or which are surplus and awaiting disposal or conversion to new uses. These non-operational properties include properties that are owned for investment purposes and from which the Council derives income; they also include properties that are owned for socio-economic reasons. These are largely occupied through leases by voluntary, community and other groups and organisations who contribute to the community well-being of the borough.
5. Although they form part of the Council's operational properties, this strategy does not cover in detail the management of the Council's housing accommodation or school buildings as there are separate arrangements for their strategic management through the Housing Strategy and the Schools Management Plan respectively. It however covers the major decisions for both services that require the change of use of existing properties or the acquisition of additional land.

Section 2: Overview of Property Portfolio

6. The property portfolio is a strategic and valuable asset which costs money to use and maintain and underpins the delivery of the council's functions. At the end of the 2014/15 financial year, the portfolio had the composition, value and costs set out below in Tables 1, 2 and 3.

Table 1 – Operational Properties

Building Type	Number
Office Buildings	12
Libraries	6
Theatres, Public Halls, Life Centre	6
Youth, Children's, Family, Inclusion & Resource Centres	10
Leisure Centres	4
Day Centres	6
Depots	6
Community schools (excluding academies and voluntary aided schools)	41
Surplus properties awaiting disposal or conversion to other uses	4

Table 2 - Non-operational Properties

Building Type	Number
Investment Properties	83
Community Buildings Portfolio	171

Table 3 – Financial Information

Type of Information	Cost/Value
<i>Current asset value (for capital accounting purposes only - disposal value would be different)</i>	
- Operational properties	£340m
- Non- operational property	£ 80m
- Housing properties (in the Housing revenue account)	£252m

Type of Information	Cost/Value
<i>Annual revenue income in 2013/14 from:</i>	
- Investment properties	£2.50m
- Community Buildings	£1.10m
Capital expenditure on buildings in 2013/14	£8.39m
Revenue expenditure on buildings in 2013/14	£4.52m
Investment required to keep operational buildings in good repair (excluding schools and housing) - over 5 years from 2015/16	£33.0m

Section 3: Sutton's Future

7. Since the coalition government took office after the 2010 general election, it has followed a policy aimed at reducing the public sector deficit, principally through reductions in public expenditure. In response, the Council identified £32m of savings through its Smarter Services Sutton (SSS) programme and the delivery of these changes will largely be complete by the end of the 2014/15 financial year.
8. Despite this, further funding and grant reductions are expected from national government over the medium term with a funding gap of £38m projected by 2018/19. To address this funding gap, the Council has initiated the Smarter Council programme to drive through the transformation of council services. This programme is focused on four key themes: Opportunity Sutton, Prevention, Neighbourhood Working and Developing Our Own Organisation. The delivery of projects underneath these themes will fundamentally change the shape of the council and its services in Sutton over the next few years.
9. The Council plans to address the funding gap by finding savings and generating additional income through the commissioning of services, by fostering business growth in the borough, by preventing problems before they happen especially in the care of vulnerable residents, by delivering services at a more local level and by changing the way the Council works.

Key Drivers Shaping Future Property Requirements

10. Given the Council's transformative agenda, the key drivers that are likely to shape the property portfolio and its management over the next four years are:
 - Reduction in the size of the Council and its resources and a consequential reduction in the number of properties required by the Council for its own use
 - Neighbourhood service delivery and increased community involvement in service delivery
 - Delivery of Council services by an increasing number of external organisations, including other local authorities, community organisations and mutuals
 - Changes to services, capacity and delivery methods in response to demographic pressures and opportunities offered by advances in technology
 - The use of the Council's property assets to drive additional income and foster economic growth in the borough
 - The efficient use and environmental performance of property retained by the Council for its own purposes

Section 4: Proposals for the Strategic Management of Operational and Non-Operational Property

Operational Property

11. These are the properties from which the Council's functions are delivered, either directly by the Council or through commissioned providers. This class of property has been subject to strategic reviews over the last few years. The Smarter Council Buildings Utilisation project, completed in February 2013, reviewed the use of all operational properties. As a consequence, a corporate vision for the property portfolio was agreed along with an options framework to be used for making decisions about the future use of Council property. The agreed vision which is set out below remains the organising principle for decisions on use of operational buildings:

“Buildings should serve service demand. The corporate core will be located in a single headquarters, with locality-based service delivery from a number of multi-use buildings across the Borough. Value for money will be increased by sharing with local partners where appropriate. Under-utilised buildings will be released where possible to generate revenue savings and capital receipts.”

12. Significant progress is being made in reducing the number of operational buildings in light of changes to services. A target to save up to 25% of gross premises costs of £4.5m by 2019 is proposed for this strategy. Progress with implementing agreed plans and proposals for future reviews is set out in the Delivery Plan attached as Appendix A.

Gaps in Operational Property Needs

13. There are three main operational areas where new property requirements over the medium-term have been identified and needs to be met over the life of this strategy. These are:
- Two new 8-form entry secondary schools; one required to open by September 2017 and the other by September 2019.
 - A new 2-form entry primary provision – required to open by September 2016
 - Office accommodation for a much reduced number of directly employed staff
14. Progress in addressing these needs is set out in the Delivery Plan attached as Appendix A.

Non-operational Property

15. There are two broad types of non-operational property owned by the Council.
 - Tenanted Non-Residential Properties (TNRP) which include investment property and property held for socio-economic reasons
 - Surplus/vacant property awaiting alternative use or disposal

16. An independent consultant's review of the Council's TNRP was undertaken in 2014. This covered all 254 property interests in the portfolio, which generate up to £3.6m in income per year. Key findings from the review were that:
 - a) The portfolio is weighted in the industrial sector with 44% of rental income generated by properties in this sector
 - b) 50% of the portfolio are small lot size properties which have an average rental income of just £4,000 per year per property
 - c) 18% of the portfolio are properties that are held by the Council primarily for socio-economic reasons and are not suited to an investment portfolio
 - d) 15% of the properties produce no rental income (for a number of reasons which include properties historically let at peppercorn rates due to conditions in their transfer agreement to the Council or properties where the lease income was capitalised as a large single lease premium paid on letting)
 - e) The Council has an experienced property team with only part of their duties related to the TNRP portfolio

17. A strategy which has the following objectives is proposed for the TNRP property portfolio:
 - a) Aligns the strategy with the Council's vision and values
 - b) Delivers a secure medium to long term investment return in line with agreed criteria
 - c) Supports the economic viability of the borough and delivers community benefit
 - d) Complies with statutory regulations e.g. health and safety and environmental sustainability

18. The TNRP portfolio presents the Council with an opportunity to generate additional income through a more commercial approach to its management and by reshaping the existing portfolio through investment in the existing properties and in new properties in line with the strategy set out below:

- a) Divide the properties into two distinct portfolios – an investment property portfolio that is managed on a strictly commercial basis and a community buildings portfolio which includes buildings that are held on a socio-economic basis.
- b) For the Investment Property portfolio, the following strategy is proposed:
 - Rebalance exposure to ground lease income (by having less) to enhance the potential for medium to long term revenue growth, and invest in directly managed properties with good rental growth potential
 - Consider geographical diversity and capitalise on investment opportunities which complement the current portfolio
 - Reduce exposure to low value and low income properties, and be challenging when achieving income from properties held on socio-economic purposes
 - Set performance criteria against which performance can be measured and disposal action taken. The evaluation criteria attached as Appendix B has been used in evaluating the non-operational properties and is proposed for adoption in this strategy. Proposals for the future of properties that do not meet the evaluation criteria are set out in the Delivery Framework attached as Appendix A.
 - Build on the strengths of the current property team, but augment with complementary skills when required e.g. for evaluating properties for acquisition

19. The operation of a truly commercial investment property portfolio requires a different approach to decision-making and an absence of sentimentality. The Council should be prepared to sell any of its investment properties if an appropriate offer is received and would need to be able to respond quickly to opportunities to acquire assets that fit the profile of the portfolio. The drive to generate additional income and shift the balance of the portfolio from low risk, low income generating assets will increase the Council's exposure to market risks. It is therefore posed that:

- a) New governance arrangements are set up to enable the operation of an Investment Property portfolio to cover issues like acquisitions, refurbishments and disposal of property.
- b) Existing delegated powers to officers are reviewed to support the new governance arrangements
- c) A robust and reliable performance regime for the Investment Portfolio is established which includes income targets, expected rates of return for the different classes of property in the portfolio, and a reporting process that provides for Member oversight.

20. For the Community Buildings Portfolio, it is proposed that the performance of these buildings is monitored using the Council's current and future cost of ownership. Many of the buildings in this portfolio are occupied by voluntary and community organisations and their continuing use is subject to the Council's Policy on the Occupation of Council Accommodation by Community and Voluntary Organisations which was agreed in October 2013 (available from this weblink [Voluntary Sector](#)).
21. The Buildings Utilisation Options framework (available on the Intranet [BUOF](#)) was agreed by Strategy and Resources Committee in March 2013 and is used for establishing the best corporate action for all properties that are surplus to the Council's requirement. There are currently 4 surplus properties and progress on taking forward their future use is set out in the Delivery Framework attached as Appendix A.

Economic Regeneration

22. The Council's property portfolio in conjunction with land and property owned by others has great potential for fostering economic growth and renewal in the borough. This is recognised in the Council's Opportunity Sutton strategy which in its 2 years of operation has attracted up to £330m in investment to the borough.
23. The plan to improve the transport infrastructure through the proposed extension of London Tramlink to Sutton and to Belmont provide an opportunity over the life of this strategy to increase the pace and density of development in Sutton Town Centre and along the proposed Tramlink route.
24. Plans for a world class Life Sciences Cluster focusing on oncology research, drug discovery and treatment at the Sutton Hospital site in Belmont and the possibility of a Tramlink to the site represents the single largest economic renewal proposal in the borough.
25. As the owner of land and property interests in Sutton Town Centre and as a key member of the Sutton for Life Partnership which is taking forward the proposals for the Life Sciences Cluster, there is a unique opportunity to use the property portfolio to both help frame the development and the implementation of the strategies for the town centre and the Sutton Hospital site.
26. The provision of affordable housing is a priority for the Council and it has committed to use its new freedoms to build new Council housing. The Council has also decided to directly establish a wholly owned limited company to acquire, develop and manage housing schemes which could include affordable and market-rented property. Progress with sites already identified for development of new-build Council housing is set out in the Delivery Plan.

SECTION 5: Organisational Arrangements for Asset Management

27. The Council's property portfolio is corporately managed, with decisions on acquisitions and disposals reserved solely for the Strategy and Resources Committee. Strategic and operational management is centrally provided through the team in Asset Planning, Management and Capital Delivery. Strategic management covers areas like policy formulation, property advice on corporate projects, property reviews, surveys and maintenance of accurate property data and information.
28. The operational functions include the management of the commercial and community buildings portfolio, the acquisition and disposal of property, asset valuations, programme and project management of all building projects, energy management and the client role for facilities management of operational buildings. The team maintains procedures for the corporate use of accommodation, maintenance of buildings, the use of the corporate property ICT system and the procurement of design consultants and contractors for buildings.
29. The coordination of the implementation of the Council's carbon management plan is provided by the team, including monitoring the delivery of the Council's ambitious target to reduce carbon dioxide emissions from its own buildings by 50% when compared with emissions at 2010/11.
30. The team has developed cross-organisational procurement arrangements with other London local authorities for the procurement of building design, construction, and other specialist property services.
31. The team is lead by the Executive Head who reports to the Strategic Director of Resources. The Lead Member for Resources is responsible to the Strategy and Resources Committee for all property matters.
32. The Strategic Director for Resources chairs the Buildings Utilisation Implementation Board which is the officer body that reviews surplus or under-utilised properties using the Building Utilisation Options Framework and makes recommendations on future use of such buildings to the Strategy & Resources Committee.

Section 6: Key Performance Targets and Milestones

Key Targets and Milestones

Activity	Date
Complete all set up arrangements for commercial property portfolio	December 2015
Open 2-form entry expansion to Hackbridge Primary School	September 2016
Open first new 8-form entry secondary school	September 2017
Achieve a 25% reduction in operational property occupation costs – compared with 2013/14 base – through a reduction in operational property used by the Council	March 2018
Reduce CO ₂ emissions from Council buildings by 50% compared with emissions for 2010/11	March 2018
Increase income from new commercial property investment by £220k	March 2019
Generate up to £7.5m in disposal income over life of asset management strategy	March 2019
Transfer all administrative services and staff into a single building in Sutton	April 2019
Open second new 8-form entry secondary school	September 2019

Corporate Asset Management Strategy 2015 – 2019

Delivery Plan

Delivery Plan for Operational Buildings

	Outcomes Sought	Projects to Deliver the Outcomes	Resources Required to Implement	Timetable
1.	Reduce the number of operational buildings used by the Council and achieve a reduction of £1.125m (25% of gross premises costs)	Close Wallington Public Hall and identify future use	From within existing revenue budgets	March 2015
		Identify alternative future use for the Old Rectory (Carshalton)	From within existing revenue budgets	July 2015
		Identify future use for Bungalow at 121a Foxley Lane	From within existing revenue budgets	March 2015
		Commercially let Grove Hall	From within existing revenue budgets	March 2015
		Transfer Secombe and Charles Cryer theatres to other service providers	From within existing revenue budgets	April 2015
		Transfer Gaynesford Lodge for use by the Sutton Music Foundation	From within existing revenue budgets	April 2015
		Identify alternative use for Stone Court and associated cottages	From within existing revenue budgets	July 2015
		Transfer The Lodge for use by Ecological as offices and base for community activities	From within existing revenue budgets	September 2015
		Rationalise the number of Children's Centres as agreed by the Children, Family and Education Committee	From within existing revenue budgets	April 2016

Delivery Plan for Operational Buildings

	Outcomes Sought	Projects to Deliver the Outcomes	Resources Required to Implement	Timetable
		Transfer the Grove for use as a hub building for community and voluntary sector organisations	From within existing revenue budgets	September 2016
		Close Denmark Road offices and identify future for building and staff car park	From within existing revenue budgets	March 2019
2.	Sell or find alternative use for buildings declared surplus to Council requirements	Redevelop Oakleigh House as temporary accommodation	Development funding provided by development partner	Commence on site by December 2015
		Identify future use for Culvers Lodge, 110 Hackbridge Road, Hackbridge	From within existing revenue budgets	December 2015
		Develop Ludlow Lodge as new-build Council housing	£11m. To be funded using HRA borrowing and right to buy receipts	Commence on site by January 2016
		Develop site at Fellowes Road as new-build Council housing	£3m. To be funded using HRA borrowing and right to buy receipts	Commence on site by January 2016
		Develop 6 HRA garage sites as new-build Council housing	£4.5m. To be funded using HRA borrowing and right to buy receipts	
		Development site at Richmond Green as new-build Council housing	£6m. To be funded using HRA borrowing and right to buy receipts	Commence on site by January 2016
3.	Office accommodation for a reduced workforce , with a target of 500/600 directly employed council staff by 2018/19	Implement flexible working at the Sutton Civic Offices	Provision of £850k has been made in the capital programme	Complete by July 2015
		Transfer staff from the Lodge to Civic Offices	Provision of £850k has been made in the capital programme	Complete by July 2015

Delivery Plan for Operational Buildings

	Outcomes Sought	Projects to Deliver the Outcomes	Resources Required to Implement	Timetable
		Transfer staff from Stone Court and Cottages to Civic Offices	To be funded from the capital programme	Complete by March 2016
		Transfer staff from the Grove to the Civic Offices	To be funded from the capital programme	Complete by September 2016
		Refurbish Civic Offices to upgrade mechanical, electrical and ventilation systems	£4m - to be funded from the capital programme	Complete by April March 2019
		Transfer staff from Denmark Road and all other administrative offices to Civic Offices	To be funded from the capital programme	Complete by April 2019
4.	Expansion of Hackbridge Primary school by a new 2-form entry provision	Complete consultation and development plans for locating new provision on the open land at Hackbridge	Provision of £7m has been made within budgeted capital spend on schools expansion from grant funding provided by government.	To open by September 2016
5.	Provide two new 8-form entry secondary schools	Complete the acquisition of land at the Sutton Hospital site and complete feasibilities for the site and the Council-owned all-weather pitch at Rosehill Park to determine which site to first develop	Provision of £30m has been made within budgeted capital spend on schools expansion from grant funding provided by government. Additional funding will be required to cover existing funding gap and provide for a second school.	First school to open by September 2017 Second school to open by September 2019

Delivery Plan for Non-operational Properties

	Outcomes Sought	Projects to Deliver the Outcomes	Resources Required	Timetable
1.	Separate the Council's Tenanted Non-Residential Properties into two portfolios: Investment and Community buildings	Apply evaluation criteria to all TNRP and identify properties to be held as investment properties and those to be held for socio-economic reasons	To be funded from existing revenue resources	March 2015
2.	Governance arrangements for the operation of commercial property portfolio	Develop proposals to establish framework for decision-making to maximise opportunities from acquisitions, disposals and management of property and to provide for appropriate Member oversight	To be funded from existing revenue resources	For Strategy & Resources approval in October 2015
		Review and recommend changes to existing delegated powers to officers in managing the commercial property portfolio	To be funded from existing revenue resources	For Strategy & Resources approval in October 2015
3.	Generate additional income from the commercial portfolio	Set out business plan and clear performance targets for the commercial portfolio	To be funded from existing revenue resources	For Strategy & Resources approval in October 2015
		Invest in existing and new commercial property in line with business plan.	To be funded from the capital programme and disposal proceeds from the sale of TNRP.	March 2016
4.	Reduce exposure to low value or low income properties	Review the following properties that do not meet the threshold for the investment portfolio to		

Delivery Plan for Non-operational Properties

	Outcomes Sought	Projects to Deliver the Outcomes	Resources Required	Timetable
		decide whether to retain for socio-economic reasons:		
		Warehouse at 234 Ridge Road, Sutton	To be funded from existing revenue resources	March 2015
		Land rear off 105, Stafford Road, Wallington	To be funded from existing revenue resources	March 2015
		Building at 7/7 High Street, Cheam	To be funded from existing revenue resources	March 2015
		Building at 9/9a High Street, Cheam	To be funded from existing revenue resources	March 2015
		Building at 11 Lower Road, Cheam	To be funded from existing revenue resources	March 2015
		Land adjacent to Manor Chambers, Throwley Way, Sutton	To be funded from existing revenue resources	March 2015
		Land at Bank Mews, Sutton Court Road, Sutton	To be funded from existing revenue resources	March 2015
		Land at North End Tavern, Cheam Common Road, Cheam	To be funded from existing revenue resources	March 2015
		Land rear off 16/18 Stanley Park Road, Wallington	To be funded from existing revenue resources	March 2015

Delivery Plan for Use of Property in Economic Regeneration

	Outcomes Sought	Projects to Deliver the Outcomes	Resources Required	Timetable
1.	Better utilisation of Council land and property in Sutton Town Centre	Proposals for development of Council-owned sites in Sutton TC in line with the new Development Plan and master plan due in 2015/16	To be funded from the Council's Revenue budget	March 2016
2.	Better utilisation of Council land and property along the Tramlink route	Identify developable Council land and property along Tramlink route and produce development proposals for the sites	To be funded from the Council's Revenue budget	??
3.	Facilitate plans for a Life Sciences Cluster in Belmont	Acquire land at Sutton Hospital as part of the Sutton for Life Partnership for development of a Life Sciences Cluster	To be funded from the Council's capital programme or revenue reserves	2016/17
4.	Generate income from private housing development	Acquire land on behalf of, and contribute as required to the implementation of the Council's Housing Development company	To be funded by prudential borrowing	2017/18