

Committee: Financial Monitoring Scrutiny Task Group

Date: 23 February 2016

Wards: Borough Wide

Subject: Estate Management

Lead officer: Chris Lee, Director of Environment and Regeneration

Lead member: Andrew Judge, Cabinet Member for Environmental Sustainability and Regeneration

Contact officer: Howard Joy, Property Management and Review Officer

Recommendations:

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1. That the task group discuss and comment on the report and identify any issues on which they wish to carry out further scrutiny.
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1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1. To respond to a request from this task group to scrutinise the Council's use of its real estate assets – who manages these, how, what is the size and yield of the assets and how does Merton compare to other councils in terms of yield.

2 DETAILS

- 2.1. The property that is owned by the Council is in two main categories:- (i) Operational - those used by the Council to provide services. Examples include day centres, libraries and corporate offices. (ii) Non-operational – those that are not used by the Council but generate an income. This report is directed at the non-operational category.
- 2.2. The non-operational estate contains two main industrial estates (Weir Road in Wimbledon and Willow Lane in Mitcham) and two main shopping parades (St. Helier Avenue and Green Lane in Morden). There are 394 commercial properties in total that include 100 industrial leases, 113 retail leases and the remainder miscellaneous other uses such as electricity sub stations and agricultural land which is in Leatherhead. All leases place responsibility to pay for repairs and insurance upon the tenant. The industrial leases are subdivided into ground leases and rack rented leases. Under the ground leases the council takes a rent for the “ground” only as the tenant has funded the construction of the building (often specialised in nature). Under the rack rented leases the council takes a rent for the building and the “ground” as the council funded the construction of the building. The ground leases are longer than the rack rented leases e.g. 125 years compared to say up to 25 years for the rack rented properties to allow for funding of the build costs by the tenant. The estate generates an income of approximately £4,000,000 p.a.
- 2.3. The estate is managed by the Property Management and Review Team (PM&R) within Environment and Regeneration Department. This team comprises three surveyors (including the section head) and two administration officers. One surveyor is mainly directed at asset valuations

which are required for the Council's accounts and to satisfy section 151 responsibilities. Therefore two surveyors deal with the management of the estate supported by the administration officers plus others in Corporate Services who collect service charges, issue invoices for rent and collect arrears of rent.

- 2.4. PM&R instruct consultants where necessary. For example to deal with specialist subjects such as leisure property or radio base stations where it does not provide value for money for PM&R to acquire the necessary expertise. Consultants are also employed to deal with rent reviews or letting property to provide a benchmark for the remainder of the estate to ensure the council is maximising income from all its property.
- 2.5. Except for the examples provided in 2.4 above PM&R deal with all lettings, lease renewals and rent reviews plus the many other responsibilities that commercial property management requires.
- 2.6. The main performance indicators used for the management of the estate are voids and debt. The vacancy rate for January 2016 is 0.4% (2 units) and debt is 6.7% (£269,008). These results can be compared with our targets of 3.5% for vacancy and 8% for debt.
- 2.7. Comparator data is very difficult to obtain as much data within the public sector is directed at facilities management not commercial property management and since the abandonment of Comprehensive Performance Assessment many local authorities do not publish or collect this information. Attempts to form a local benchmarking group with adjoining boroughs failed due to lack of interest/resource from the adjoining boroughs although we will keep trying.
- 2.8. PM&R were subject to Service Review and Challenge Session in 2011 and 2010 and at that time compared with eleven other boroughs (the only ones supplying data):
 - (i) The total team size is five whereas comparators ranged from five and one half to twenty five.
 - (ii) Only three of the eleven boroughs had less than nine staff. The average team size was twenty six.
 - (iii) The average value of investment property managed by the eleven boroughs was £3.3m whereas in Merton the value per team member was £4.5m (NB the team size has since reduced to five from six).
 - (iv) The return on investment in Merton was 12.28% the all property index for the Investment Property Data Bank was 6.4%. The average return for the other boroughs was 9%.
 - (v) The average void property rate was 5.06% for the other boroughs whereas in Merton it was 3.48% (NB as stated in 2.6 it is currently 0.4%).

3 ALTERNATIVE OPTIONS

- 3.1. N/A

4 CONSULTATION UNDERTAKEN OR PROPOSED

- 4.1. N/A

5 TIMETABLE

5.1. N/A

6 FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

6.1. The current variance against budget is £302,476 i.e. over achieved.

6.2. Incentives such as rent free periods are not offered to new tenants but when the market is poor or when works are funded by the incoming tenant rent free periods are considered should the tenant seek one.

6.3. As authorised by Council policy notional rent is provided where an organisation e.g. a community centre provides a valuable service to the Council or the community. Notional rent occurs where a market rent is stated within the lease but this is not collected, it is dealt with as a transfer between the budgets of the Council.

6.4. Funding for NNDR is a responsibility for any vacant property subject to empty rates allowance but success in letting the Council's property (see paragraph 2.6 above) has reduced the cost to its current level of £24,561.

6.5. All of the property is insured through the Council and premiums recovered through the lease terms.

6.6. The debt written off during 2014/15 was £13,428 rent plus £310 service charges and for 2015/16 to date was £20,846 rent plus £1,965 service charges.

7 LEGAL AND STATUTORY IMPLICATIONS

7.1. N/A

8 HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

8.1. N/A

9 CRIME AND DISORDER IMPLICATIONS

9.1. N/A

10 RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

10.1. N/A

11 APPENDICES – THE FOLLOWING DOCUMENTS ARE TO BE PUBLISHED WITH THIS REPORT AND FORM PART OF THE REPORT

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12 BACKGROUND PAPERS

12.1. None

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