

REPORT TO EXECUTIVE

PORTFOLIO AREA: CROSS CUTTING

Date of Meeting: 14th April 2009

Public

Key Decision: Yes

Recorded in Forward Plan:

Yes

Inside Policy Framework

Title: PROPERTY PORTFOLIO OPTIONS - THE NEXT STEPS

Report of: Head of Economy, Property & Tourism

Report reference: DS.29/09

Summary:

Following consideration of the Montagu Evans report on property portfolio options by the Executive in September last year, there has been a period of consultation on the analysis of the options for the Council's property portfolio, including meetings with businesses and presentations to Overview and Scrutiny committees.

This report describes the next steps in the process of the review. It summarises the agreed conclusions from the work so far, presents the outcome of the consultation process and outlines the next steps in the development of a framework for the future management of the Council's property portfolio based on the analysis in the Montagu Evans report.

Recommendations:

- [a] That the Executive agrees to the process for the next stage of the Property Portfolio review as set out in the report.
- [b] That Montagu Evans is re-appointed for the next stage of the review.
- [c] The Executive request that the Council approves the funding of the extension to the Montagu Evans contract, at a cost of up to £200,000 in 2009/10 to progress the work on the Property Review as specified in the report, from the Projects Reserve.

Contact Officer: David Beaty

Ext: 7120

Note: in compliance with section 100d of the Local Government (Access to Information) Act 1985 the report has been prepared in part from the following papers: Montague Evans Property Portfolio Options Final Report Sept 08

1. BACKGROUND INFORMATION AND OPTIONS

1.1 Introduction and Report Structure

1.1.1 This report is a further step in the process of developing a new approach to the management and utilisation of the Council's property assets. The process is a long one and the report is intended to show how the work proposed over the next 9-12 months will move the Council to a position where it can make decisions on the options for the future management of its property assets. The report is structured as follows;

- ❑ Current position – what is agreed so far.
- ❑ Consultation – what has been learned.
- ❑ Proposed actions and milestones over the next 9-12 months
- ❑ The position in 12 months time
- ❑ Resources and implementation of the programme of work.

1.2 Current position - what is agreed so far

1.2.1 It will be important that this work goes ahead on the basis of a broad agreement on the principles that underpin the Montagu Evan analysis. There are 4.

- ❑ A higher priority for the management of property within the Council's corporate structure
- ❑ A different, more strategic way of working
- ❑ Learning from the private sector in the way property is managed and in the way decisions are taken
- ❑ Investing to improve the Council's capability.

1.2.2 Also from the Montagu Evan analysis, it is assumed that the following conclusions are now agreed and will shape the programme of work in the next stage;

- ❑ The "do nothing" option and the option of a single asset vehicle are rejected.
- ❑ That the breakdown of the portfolio into segments [or "buckets"] provides a sound basis for business planning and the development of a coherent overall strategy.
- ❑ To fully capitalise on the opportunities available to it, the City Council will need to have access to both significant financial resources and individuals with the necessary skills and experience. Unless it decides to direct a significantly increased proportion of its revenue and capital budget towards the management of, and investment in, its property portfolio, the City Council will not be able to fully capitalise on the opportunities available to it without the assistance of the private sector;

- ❑ That the Council will therefore need to position itself to attract the involvement of the private sector and will need to introduce procedures, structures and processes to enable effective partnership working.

1.2.3 The format, scale and nature of any partnership or arrangement with the private sector is not yet agreed. The task over the next 12 months will be to define the options open to the Council and to clarify the strategy that will form the basis of any engagement with the private sector.

1.3 Consultation – what has been learned

1.3.1 The consultation process had three aspects;

- ❑ Overview and Scrutiny workshops and presentations
- ❑ Consultation meetings with businesses
- ❑ Questionnaire to tenants of the Council.

1.3.2 Corporate Resources O&S was the lead committee for scrutiny and it met for a workshop on October 13th and received a further presentation from Alan Harris of Montagu Evans on February 11th when it also received feedback on the consultation with businesses. Copies of the workshop notes and the minute from the Feb 11th meeting are appended to this report.

1.3.3 The business meetings and the conclusions from the questionnaires to date are summarised within the attached report. The key issues raised within the questionnaires and highlighted from the presentations were an acknowledgement that ‘one option does not fit all’ with a resounding impression that change is needed:

1.3.4 The other main points arising from the consultation were;

- **Choice** – The lack of options that are available to businesses
- **Flexibility** – The lack of flexibility of different tenure options, both short and long term.
- **Collateral** – An understandable value of the premises to secure funding and represent value.
- **Infrastructure Investment** – the need for investment to enhance and protect the capabilities of the estates.
- **Expansion** – That building were not matching business needs and that business were constrained by their premises.
- **Certainty** – That the rent review structure and talk of a Local Asset Vehicle caused uncertainty and risk.
- **Communication and understanding** – There was a desire to have a more flexible, responsive relationship between landlord and tenant.

- **Branding / Identity** – There would be benefits to business if a greater vision was implemented from the long terms positioning of the estates.
- **Freeholds** – By owning their premises outright, there was more incentive to invest for the future and clearly ground lease tenures are a time bomb dating back to the 60's and 70's and not as desirable for modern property practices.

There is however a great deal of scepticism that anything will ever happen coupled with a desire to be informed and involved in how the proposed changes would evolve.

2. PROPOSED ACTIONS AND MILESTONES OVER THE NEXT 9-12 MONTHS

2.1 Staff resources and process

- 2.1.1 Having agreed the broad principles of the Montagu Evans report, the first step is to undertake a detailed review of the options that exists both for the overall Portfolio Management and the underlying Asset Management functions. This will have a direct impact on the way the Council owns and manages the assets in the future.
- 2.1.2 Prior to undertaking a different approach internally within the Council, or entering into a dialogue with the private sector, be it for a joint venture, company structure, asset management agreement or part disposal, Montagu Evans believe that it is essential to address key issues and for the Council to reach agreement on the strategic objectives for the Council's portfolio.
- 2.1.3 The basic principal is that it is essential to have the Council's own house in order and to fully understand and to have chosen specific directions of travel, prior to any engagement with 3rd parties.
- 2.1.4 What is clear is that the present objectives are wide ranging and cover facilitating economic regeneration, value/income growth and the appropriate consideration of risk and resources. Further definition is required for each of these issues and how the various options relate to the Council's management, control, governance, financial position and risk exposure. In addition it will be essential to consider how potential partnerships evolve with other public sectors stakeholders.
- 2.1.5 In order to achieve a style of ownership and management that balances both the Council's policy objectives and future partners appetite for such ventures, it is proposed that a core team of senior officers and appointed consultants work

through an intensive period of review to agree acceptable positions on each on the above points. The proposed membership for the working group is:

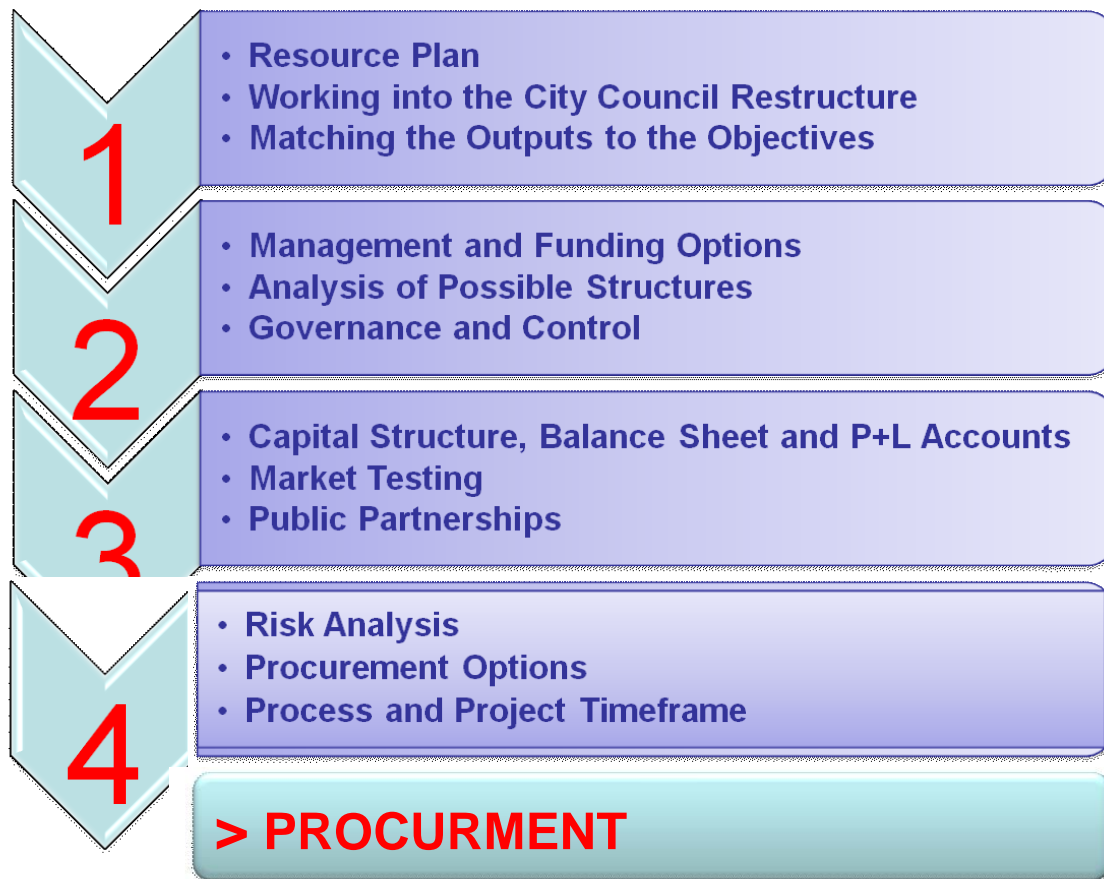
- Town Clerk and Chief Executive
- Head of Economy, Property & Tourism
- Property Services Manager
- Head of Finance
- Head of Legal Services
- Joel Dodd of Homes and Communities Agency [to be agreed]
- Alan Harris of Montagu Evans

2.1.6 As and when specific specialist advice is required, either internal with the Council or from consultants, this will be called upon. Montagu Evans can be appointed under The North West Development Agency Framework panel whilst any third party consultants such as accounting or legal specialists will be procured as sub-consultants to Montagu Evans. A brief will be prepared for Montagu Evans and contractual terms agreed in line with the NWDA Framework.

2.1.7 In order to achieve a dedicated focus and speedy progress it is proposed that Alan Harris and Joel Dodd will act as coordinators for the working group and will undertake detailed consultation with Members during the process. The Executive needs to determine the level of engagement with elected members at each stage of the process over the next 9-12 months. It will be essential that there is a procedure in place that will enable officers to receive clear and timely guidance and endorsement of work in progress as each milestone is reached [see diagram below].

2.2 Proposed Outputs and Milestones.

2.2.1 Montagu Evans have set out four areas of focus that will be progressed one after the other. The diagram on the following page summarises the four stages. As and when analysis and evaluation is completed by the Working Group, there will be an Interim report and requirement sign off by the Executive and/or amendments to the progress included. This will ensure that technical matters are fully considered and analysed in a focused approach and that the conclusions of the process are set before the Executive.



2.2.2 The issues that will be fully covered within the programme include:

- Level of control (overall and for specific asset classes).
- The style and objectives of the management philosophy (overall and for specific asset classes).
- The legal structures that are available and the implications to the Council.
- The type, level and cost of resources require with the Council
- The capabilities, skills and abilities required from 3rd parties
- The financial implications in the short to long term including a detailed financial model.
- Consideration of the risk and to prepare to manage these risks
- Inclusions and partnering with other public sector stakeholders
- Prioritisation of the way ahead
- Methodology for initiating the change and/or procurment.

2.2.3 By the conclusion of the next 9 to 12 months it is assumed that the property market will have seen significant restructuring and there will be a stable sector into which to progress.

3. THE POSITION IN 12 MONTHS TIME

- 3.1 It is planned that having completed the detailed review that the Council will have established a preferred route including a detailed methodology to enter into dialogue with 3rd parties. This will ensure that the Council reaps the benefit of the significant expenditure in implementing and delivering the envisaged structural changes to the way the Council owns, manages and makes decisions upon its property portfolio. It will also secure the best possible chance of success and achieving progress on terms wholly understood and suitable for the Council.

4. RESOURCES AND IMPLEMENTATION OF THE PROGRAMME OF WORK.

- 4.1 An annual sum of £200,000 was included in the Council's budget resolution in the years 09/10 to 2011/12 to "resource the portfolio management and asset management function of the Council to establish the recommended strategic framework for the delivery of the outcome of the Property Portfolio Options review"
- 4.2 The budget note continued by saying; "these are indicative figures from the external consultant's report and the intention is to fund this expenditure from the Asset Investment Reserve, subject to Council approval, following confirmation of the classification of expenditure".

5 RECOMMENDATIONS

- [a] That the Executive agrees to the process for the next stage of the Property Portfolio review as set out in the report.
- [b] That Montague Evans is re-appointed for the next stage of the review.
- [c] The Executive request that the Council approves the funding of the extension to the Montague Evans contract, at a cost of up to £200,000 in 2009/10 to progress the work on the Property Review as specified in the report, from the Projects Reserve.

6 IMPLICATIONS

- Staffing/Resources –
The options to be evaluated over the next 12 months may have implications for staff as and when the Council determines its options for the future management of its property service. The intention is to involve staff throughout the process as it evolves over the next 9-12 months.

- Financial –

- [i] The Budget approved by Council on the 3 February 2009 included a non recurring budget of £200k per annum from 2009/10 to 2011/12 for 'Asset Management'. Note 3 of the Resolution set out the purpose for which this budget was approved i.e. to "resource the portfolio management and asset management function of the Council to establish the recommended strategic framework for the delivery of the outcome of the Property Portfolio Options review".
- [ii] The note also states that "These are indicative figures from the external consultant's report and the intention is to fund this expenditure from the Asset Investment Reserve, subject to Council approval, following confirmation of the classification of expenditure."
- [iii] The Asset Investment Reserve is a capital reserve and may only be used if the work carried out leads to an increased value of assets. This report recommends the continuing support being provided by Montague Evans at a cost of up to £200,000. This cost will provide for the specialist property, legal and financial advice to enable the Council to enter into a partnership with the private sector if it wishes to do so.
- [iv] Expenditure of this nature is revenue rather than capital and approval by Council to fund this from the Projects Reserve rather than the Asset Investment is required.
- [v] As stated in the Budget Resolution it is anticipated that the Projects Reserve will be in deficit by £2.5m as at 31 March 2010 therefore if this approval is provided it will worsen this position by the amount approved to be expended in 2009/10.
- [vi] The Medium Term Financial Plan will require updating should the changed funding arrangement be approved.
- [vii] Future reports of options and the whole life capital and revenue implications will set out how the scheme helps to develop or fits with the Asset Management and Corporate Plan objectives and priorities.
- [viii] The proposal to appoint Montagu Evans via the NWDA framework agreement is in accordance with the Council's Contracts Procedure Rules

section 4 (6) (d). This allows for the concluding of, participation in or purchase of goods, supplies or services from or via any framework agreement, competitive dialogue or electronic procurement pursuant to the Public Contracts Regulations 2006 or any subsequent re-enactment or amendment thereof.

- Legal –

The Council has powers under Section 120 of the Local Government Act 1972 to acquire property for the benefit, improvement or development of its area.

It also has power to dispose of property under Section 123 of the same Act, together with the general capacity under the well-being powers in Section 2 of the Local Government Act 2000 to do anything it considers likely to improve the economic, social or environmental well-being of its area [subject to having regard to its own community strategy].

These powers in combination should be sufficient to progress the various initiatives which are anticipated will come out of the property review and each particular scheme or proposed development will need to be considered by the Executive on a case by case basis as they arise.

- Corporate –

SMT has discussed the proposals in the report and the process and the recommendations from the property options review will be taken into account in any future review of Council structures and priorities.

- Risk Management – To be included within process.

- Equality and Disability – No impact

- Environmental –

No impact as yet until procurement stage when compliance with the Council's environmental policies will need to be taken into account.

- Crime and Disorder – No impact

- Impact on Customers –

Outcomes from consultation process will be taken into account in the evaluation of options.

Carlisle City Council

Industrial Estate Occupier Consultation

Summary Report

A questionnaire was recently distributed to the occupiers of Carlisle City Council's industrial estates in a bid to engage the Council's tenants and assess their opinion of the premises and the estates. The aim of this paper is to summarise the responses and to provide analysis of the findings.

The questionnaires were issued in December 2008 and 31 industrial estate occupiers responded:

- Kingstown Industrial Estate – 15 replies
- Rosehill Industrial Estate – 4 replies
- Durranhill Industrial Estate – 4 replies
- Willowholme Industrial Estate – 3 replies
- Other – 5 replies

GENERAL SUMMARY OF ANECDOTAL FINDINGS:

It was acknowledged during the consultation process that no “quick fix” exists and that the issues challenging the Council and tenants are many and varied; there is a resounding need for change in respect of:

- **Choice** – The lack of options that are available to businesses.
- **Flexibility** – The lack of flexibility of different tenure options, both short and long term.
- **Collateral** – An understandable value of the premises to secure funding and represent value.
- **Infrastructure investment** – The need for investment to enhance and protect opportunities for the estates.
- **Expansion** – Buildings are not matching business needs and business is constrained by their premises.
- **Certainty** – Rent review structure and talk of a Local Asset Vehicle causes uncertainty and risk.
- **Communication and understanding** – There is a desire to have a more flexible, responsive relationship between landlord and tenant.
- **Branding / Identity** – There would be a benefit to business if a greater vision was implemented for the long term positioning of the estates.
- **Freeholds** – By owning their premises outright, there would be more incentive to invest for the future and clearly ground lease tenures dating back to the 60's and 70's are increasingly becoming liabilities and undesirable for modern property practices.

There remains a great deal of scepticism that progress will be achieved; notwithstanding this there is a desire to be informed and involved in the evolution of the process.

RESPONDER PROFILE

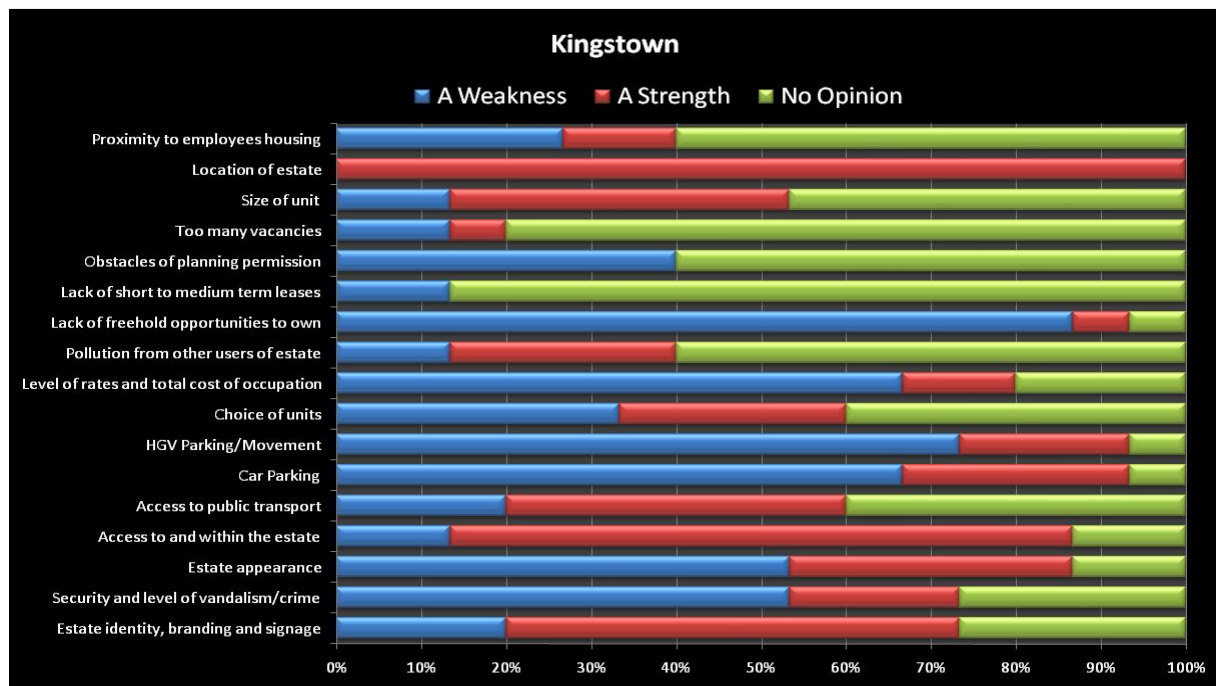
The industrial estate occupiers that responded represented a broad mix of sectors across manufacturing, offices, haulage, warehousing and retail/sales.

Almost half the occupiers were independent traders whilst 25% formed business branches and almost 20% formed company head quarters. The majority of businesses operate on a local or regional basis, almost 70%. Over 80% work closely or rely on local business trade.

Almost three quarters of the respondents have ground leases from the Council, while only 6% are owner occupied. The remainder occupy premises leased from a landowner other than the Council.

KINGSTOWN INDUSTRIAL ESTATE

Kingstown Industrial Estate is considered CCC's premier industrial estate. The estate forms the Council's largest industrial estate and is well located to the north of the city close to junction 44 of the M6. The occupiers were asked to give their opinion of a number of aspects of Kingstown Industrial Estate; the results are shown below.



The graph above highlights Kingstown Industrial Estate's main strength being the location of the estate with all the questionnaire's respondents acknowledging this. It is likely that this will relate specifically to the estate's proximity to the motorway and other main road infrastructure. The majority of the occupiers that responded, almost 60%, operate on a local or regional basis thus proximity to the main road network is clearly desirable.

Over 80% of the estate's occupiers were either indifferent or felt that the estate's proximity to employee housing was a weakness, likely reflecting the estate's positioning to the north of the city with the majority of housing to the south.

Around 70% of the occupiers felt that access to and within the site was a strength, oncemore highlighting the desirable location of the site and proximity to the main road network. However this is somewhat mitigated by the fact that over 50% of the occupiers highlighted that both car parking within the estate and HGV parking and movement represent a key weakness.

Over 50% of the occupiers suggested that the estate's identity and branding represented a strength however this conflicts with the opinion of the estate's appearance and security given half the responders indicated that

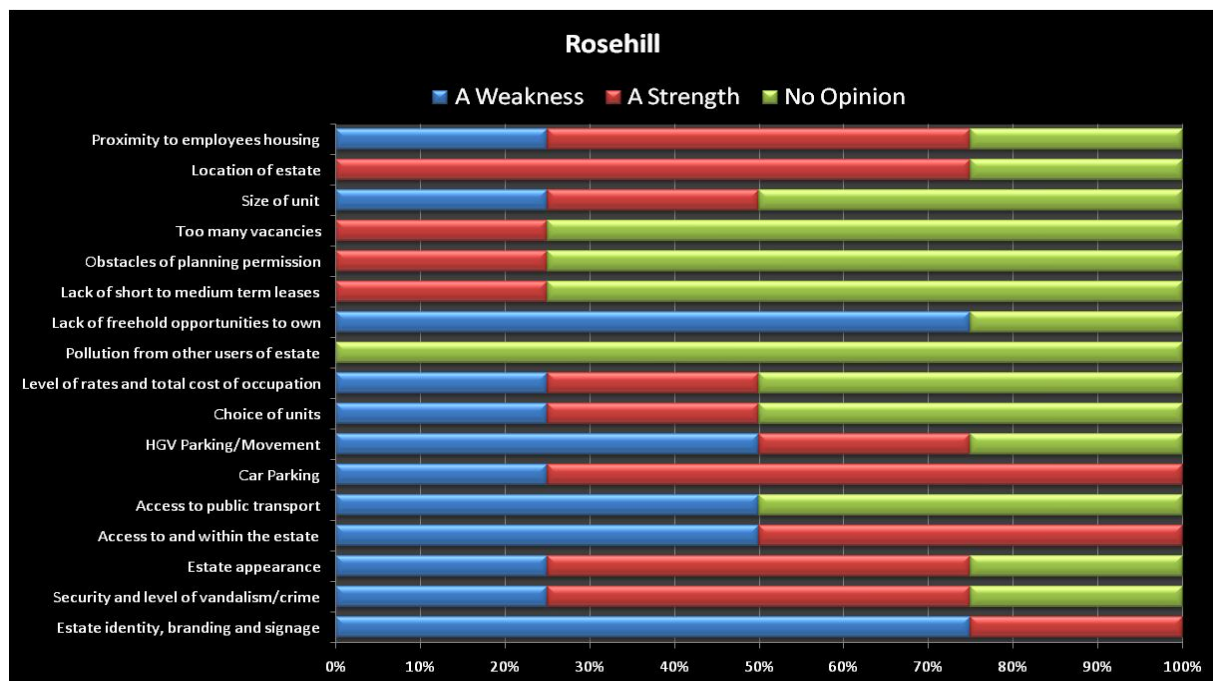
they felt this was a weakness. This may suggest that the reputation of the estate as the Council's foremost industrial estate precedes it whereas at an operational level there are management issues to be addressed.

The industrial estate's prevailing weakness is the lack of available freehold opportunities, over 85% of the occupiers that responded highlighted this. This concern is shared by the occupiers of all the industrial estates consulted with at least 60% of occupiers at each estate highlighting this weakness. Over 60% of Kingstown Industrial Estate occupiers believe also that the cost of occupation represents a weakness of the estate. However, ultimately occupational costs will be assessed on the basis of the wider market.

A further concern of the estate's occupiers is the lack of choice of units within the estate with over 30% indicating this aspect as a weakness. However this is unlikely to reflect the size of available units given almost 40% believe unit size to represent a strength of the estate and over 40% indicating an indifference to this aspect.

ROSEHILL INDUSTRIAL ESTATE

Rosehill Industrial Estate is one of the Council's stronger performing estates and comprises industrial, business and retail/sales uses. The estate benefits from an excellent location close to junction 43 of the M6 and benefits from good car parking. The results of the occupier questionnaire are shown below.



Rosehill Industrial Estate's proximity to the M6 and location towards the south of the city is highlighted by the responses of the estate's occupiers; over 70% of occupiers suggested the estate's location was a strength and almost 50% indicated its proximity to employee housing as a strength.

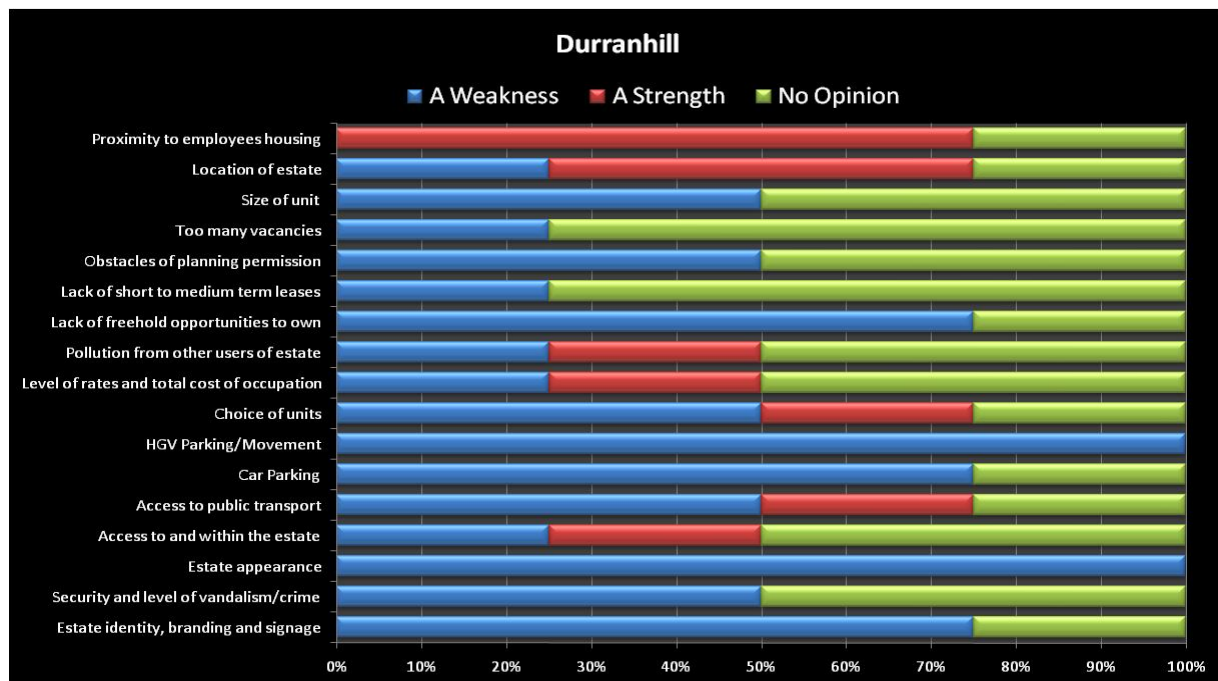
Almost half of the occupiers whom responded indicated that the estate's appearance and levels of security were strengths versus 25% who noted these aspects as weaknesses however this is mitigated somewhat by the fact that over 70% of the occupiers felt that the branding and identity of the site was a weakness suggesting that not enough is being done to promote the industrial estate.

The industrial estate benefits from a large area of car parking and this was highlighted by 75% of the occupiers as a strength. Conversely however access to public transport was indicated as a weakness by 50% of responders while the remaining 50% remained indifferent. Similarly whilst the estate is clearly favourable with car users the majority of occupiers suggested that HGV parking and movement represents a weakness possibly underlining the conflict of uses in the estate.

The lack of freehold opportunities represented the greatest concern among occupiers however concerns over the cost of occupation were mixed with half the responders offering no opinion, 25% indicating this aspect was a weakness of the industrial estate and 25% suggesting it was a strength of the estate.

DURRANHILL INDUSTRIAL ESTATE

Durranhill Industrial Estate forms another of Carlisle City Council's main industrial estates however in recent years has suffered from poor infrastructure. Despite this the estate is well located towards the south of the city and has good access to the city's road network. The results of the questionnaire responses are shown below.



Occupier sentiment would appear poor from an initial assessment of the results however this is moderated somewhat given it is widely acknowledged that the estate suffers from management issues and requires investment.

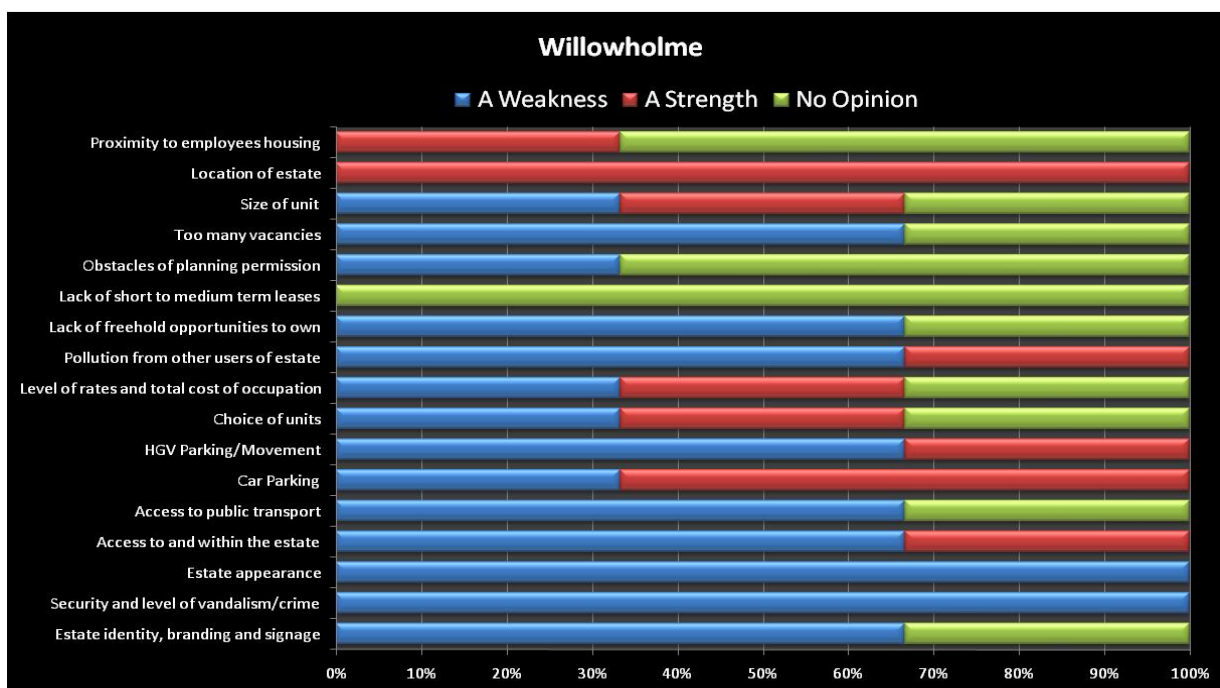
The key strengths of the estate are highlighted as being its location and its proximity to employee housing. This is consistent with the wider findings of the survey which underline the desirability of being located close to Carlisle's main road network and main employee housing area to the south.

The main weaknesses of the estate are its appearance and HGV parking and movement; all of the occupiers that responded noted these aspects as weaknesses. Further car parking was offered as a weakness by over 70% of the estate's occupiers. It is widely acknowledged that the roads and pavements of the estate require investment and the findings above echo this. The road layout is compact and this does not lend itself to the parking and easy movement of vehicles, especially HGVs.

Over 70% of the occupiers that responded also highlight the lack of freehold opportunities available as a weakness. The same proportion of occupiers also indicated concerns at the lack of branding and the poor identity of the site.

WILLOWHOLME INDUSTRIAL ESTATE

Willowholme Industrial Estate, located to the immediate west of the city centre, represents one of the city's most central industrial estates. The industrial estate suffered from major flooding in 2005 and concerns remain over the road infrastructure. There is a lack of formal policy on tenant mix which has resulted in conflicting uses on the estate. The results of the questionnaire responses are shown below.



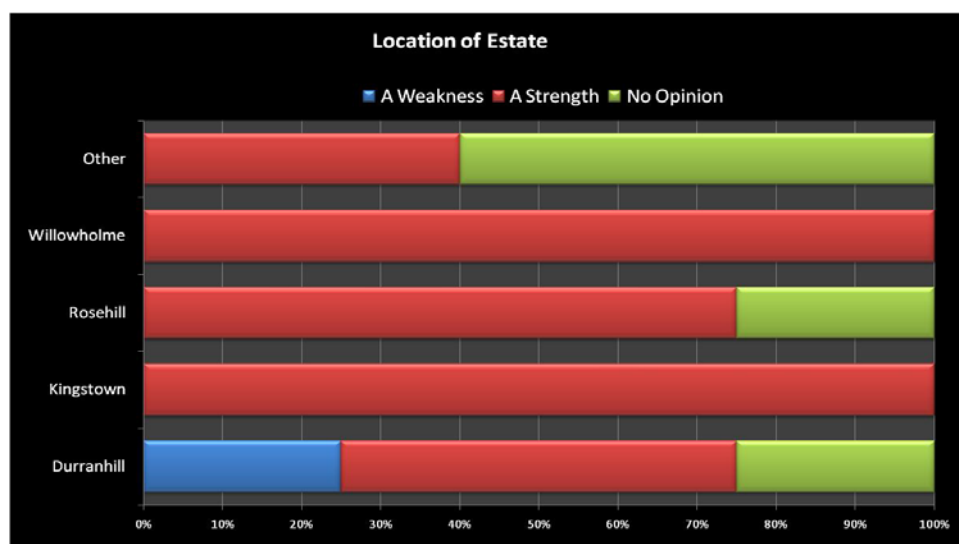
The industrial estate was developed in the 1950's and 60's and it is acknowledged within the Council that investment is required to restore the estate to an adequate state of repair. This sentiment is echoed by the occupier's responses; all the occupiers highlighted the estate's appearance and level of security as a weakness. In addition over 65% of the responses indicated that the estate's identity and branding was a weakness.

The location of the estate is highlighted as a strength by the occupiers referring possibly to its central location given the estate is the most remote of the other industrial estates assessed in relation to access to the motorway. Car parking is highlighted as a strength by almost 70% of the respondents however access to and within the estate is also noted by close to 70% of the respondents as a weakness. A similar proportion suggested HGV movement and access represented a weakness, underlining the poor road conditions within the estate.

The results did not display a prevalent opinion with regard to the sizes and choice of units within the estate; similarly there was not a predominant opinion on the occupational costs at Willowholme Industrial Estate.

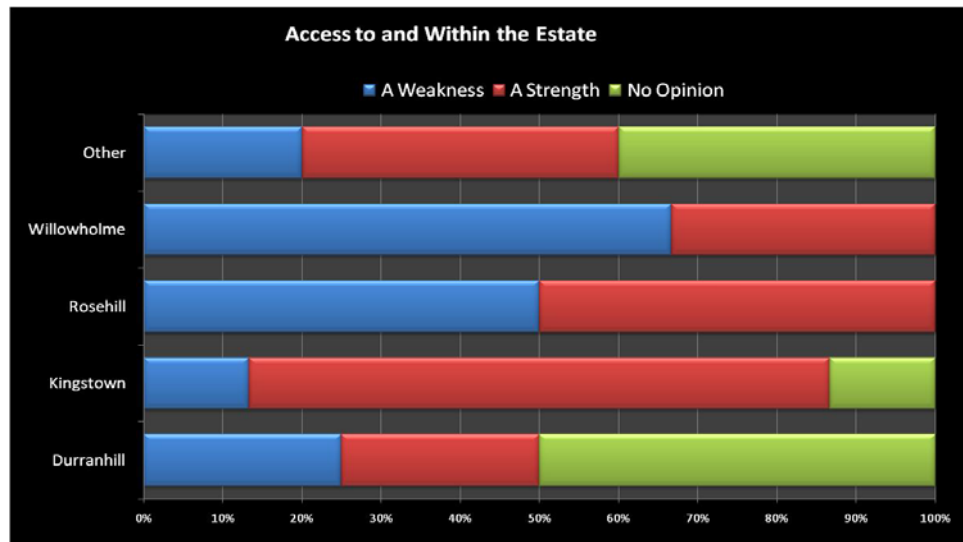
GENERAL ANALYSIS

The results of the questionnaire clearly indicate the key strength of the industrial estates being their location and to a lesser extent their accessibility; at least 40% of the industrial estate occupiers noted their respective locations as a strength.

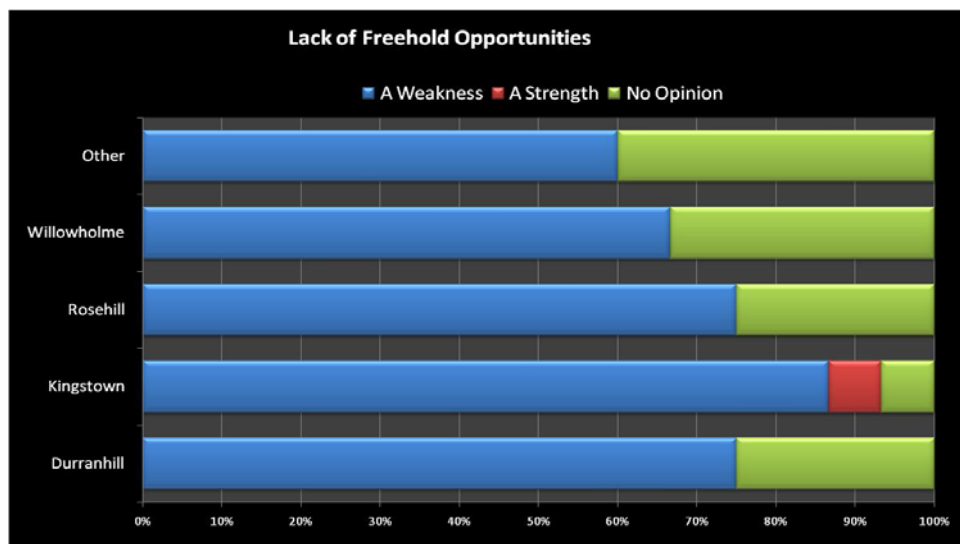


These findings correlate closely with the feedback received when the tenants were asked to provide their preferred location; given the choice 52% of tenants would choose to locate in the north of Carlisle, 23% in the south, 19% to the east and 7% in the centre. No tenants indicated a preference for a western or rural location.

Access to the Council's industrial estates was also noted as a strength. This is largely synonymous with the industrial estates' proximity to the city's main road network, and again, their strategic location. Occupiers at Willowholme Industrial Estate and Durrnanhill Industrial Estate did not respond as favourably as the other estates however this likely reflects road conditions within the estates.



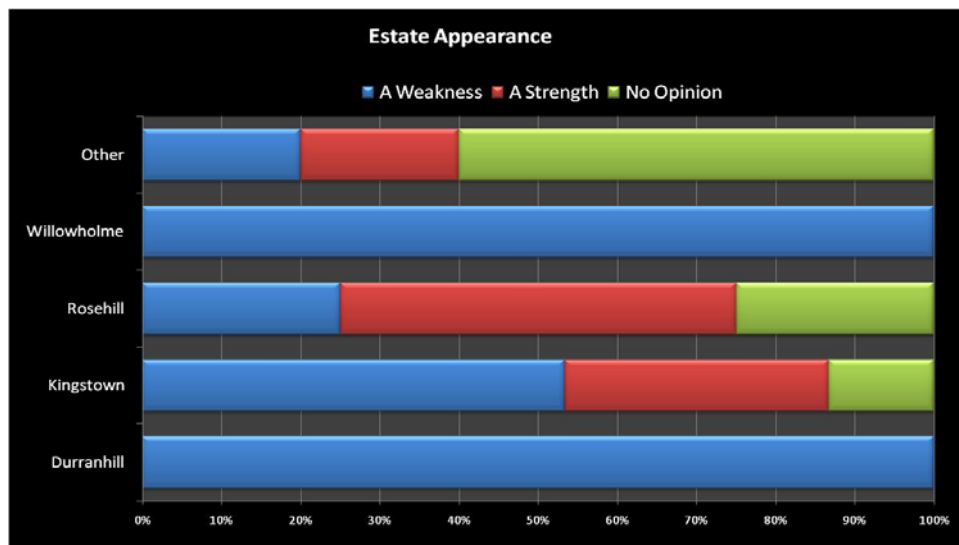
Of greatest concern to all the occupiers whom responded was the lack of freehold opportunities within the estates; a minimum of 60% at each location suggested this aspect represented a weakness.



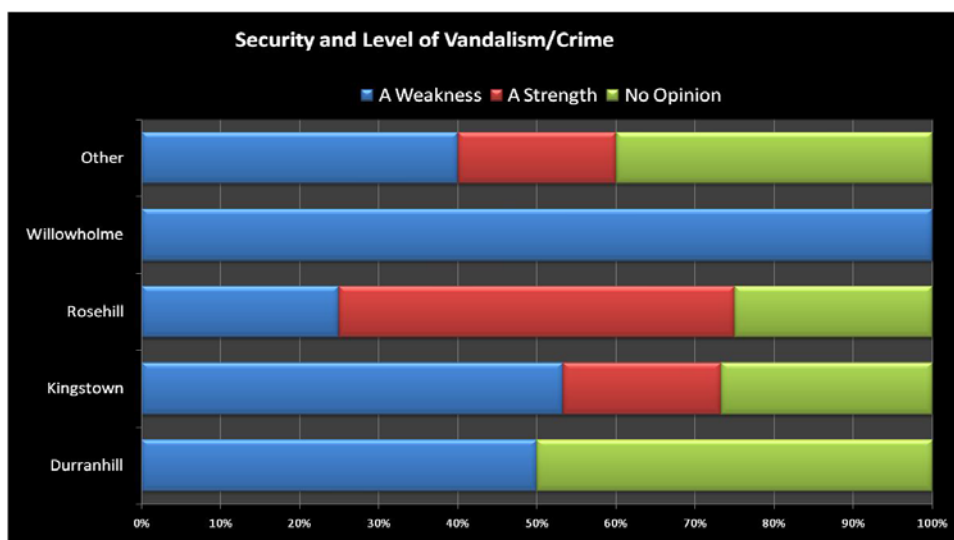
A quarter of the tenants whom responded also indicated a willingness to pay higher costs for larger buildings and sites. Others indicated a requirement for less space and would consider downsizing in a bid to make cost savings or consider sale and leaseback to release capital. The range of responses received highlights the varied needs of tenants and the need to engage with tenants on an individual basis as far as practicable.

Notwithstanding that the Council's tenants bemoan the lack of freehold opportunities the returned questionnaires highlighted that 48% of tenants are satisfied with their lease terms, 32% expressed no opinion while one fifth are not satisfied.

The appearance of the Council's industrial estates was also noted as a weakness by the majority of occupiers whom responded. All of the respondents from Willowholme Industrial Estate and Durranshill Industrial Estate felt the appearance of their estate represented a weakness. Rosehill Industrial Estate fared better, half of occupants felt the estate's appearance was a strength whereas only one quarter felt it was a weakness.



These findings relate closely to the occupiers opinions on security and the level of crime/vandalism within their respective estates. All the occupiers at Willowholme Industrial Estate felt this was a weakness as did half of the occupiers at Durranshill Industrial Estate and Kingstown Industrial Estate. The occupiers' views of their estate's appearance and the level of crime/vandalism appear closely correlated; 50% of the Rosehill Industrial Estate occupiers suggest that the security at the estate represents a strength while one quarter believe it to be a weakness.



CONSULTATION MEETINGS

Consultation meetings were held with occupiers from Kingstown Industrial Estate, Rosehill Industrial Estate and Durranshill Industrial Estate. Montagu Evans were given the opportunity to present to the Council's industrial estates' tenants to summarise the Council's position and take questions from the attendees.

The salient points are summarised below:

Kingstown Industrial Estate

- Tenants would like to be given the opportunity to buy freehold land within the estate. This would encourage further investment by tenants in their premises.
- Tenants are concerned that any proposed asset management strategy will ultimately form a bid by the Council to fund Carlisle Renaissance projects through tenant contributions.
- Tenants are concerned that the introduction of the private sector will result in an increase in occupational costs. This would be of particular concern in the current economic climate.
- The tenants urge that the process of forming a new asset management strategy be transparent and that tenants are kept well informed.
- Concern over the lack of choice if the Council were to sell their industrial assets; if this was the case tenants would be left with two private sector clients i.e. the new purchaser and Kingmoor Park.
- Multiple reviews of the portfolio in the past. Will this current action form merely another review?

Rosehill Industrial Estate

- Why not maintain the status quo?
- Tenants would like to be given the opportunity to buy freehold land within the estate. This would encourage further investment by tenants in their premises.
- Reluctant to see private sector intervention.
- Remaining length of ground leases are barrier to investment; if freehold opportunities are not an option then would like more security over ground leases.
- Tenants enjoy free parking and accessibility.
- Concern over mix of uses, HGV movement/parking and the resultant congestion.

Durranshill Industrial Estate

- Reluctant to see private sector intervention.
- The tenants urge that the process of forming a new asset management strategy be transparent and that tenants are kept well informed.

Extract from the minutes of the Corporate Resources Overview and Scrutiny Committee Feb 11th 2009

CROS.33/09 PROPERTY OPTIONS REVIEW

The Head of Economy, Property and Tourism (Mr Beaty) submitted report DS.16/09 following on from the Workshop on the Montagu Evans' report on the Property Options Review held on 13 October 2008. A copy of a note summarising that report was attached.

This session was designed to give Members the opportunity to revisit some of the fundamental issues arising from the Montagu Evans report, to receive the findings of the consultation with businesses and to discuss the way forward.

Mr Alan Harris of Montagu Evans was present at the meeting and gave a detailed presentation on the Carlisle City Council Asset Portfolio Analysis, outlining why he believed that some form of change was needed; the analysis of existing assets and strategies; the results and ideas for the way ahead and consultation feedback.

Copies of the presentation were tabled at the meeting.

The Executive had on 22 September 2008 considered the matter (EX.236/08) and decided:

"That the Executive

1. Receive the report by Montagu Evans LLP.
2. Agree that the establishment of a single Carlisle Local Asset Vehicle, incorporating all, or a significant proportion of the City Council's asset portfolio would not be the best way forward for Carlisle.
3. Commit to a consultation process with interested parties, including the Carlisle Partnership Executive, on Montagu Evans LLP's recommendations.
4. Refer the report to the Overview and Scrutiny Committee for its comments and views on the future strategy for the City Council's assets; and
5. Receive a further report from the Director of Development Services on the options for Carlisle City Council's property portfolio to a future meeting of the Executive."

Mr Beaty then drew Members' attention to the key issues for the Council which would set out the direction of travel for property.

In scrutinising the matter, Members raised the following questions and observations:

- (a) The 'Divest Bucket' comprised only non-operational assets and reference had been made in the presentation to opportunities to rationalise the portfolio, realise capital values and invest into assets that would deliver greater return. The Lanes retail development was one of the City Council's success stories. In that

context, it was surprising to note from the proposed Capital Structure the shift from retail into operational.

In response Mr Harris emphasised the need to examine the asset base to determine whether the Council was getting the most out of it for the future. It may not be necessary to change control to bring 'gearing' down. The level of gearing could be affecting performance at the moment. It was not a decision for now, but rather a concept/idea for the future.

- (b) What timeframe was envisaged for moving from the present to the proposed Capital Structure? That was important in terms of the current economic climate.

Mr Harris said that would take a minimum of five years. It was important to put in place the front end work to secure dividends for the future. He would like to see the City Council in a position to make decisions when the economy picked up again.

- (c) The proposed structure identified three buckets (industrial, land and strategic) as being the subject of external control. Would those be controlled by three different organisations; and were specialist skills required?

There could be a loss of economies of scale which would make governance more difficult since the Council would be dealing with a greater number of partners.

Mr Harris did not wish to make a decision on that issue today. His own view was that all assets and the funding elements were very different and there was a need to focus on finding specialist skills to address those issues.

A Member indicated his agreement, commenting upon the need to be clear as to the arrangements being established and priority given to those since that would ultimately affect the Council's priorities.

In response, Mr Harris explained that prioritising would come out of the next stage of work. The first priority for the Council would be to get its own house in order. His preference was for industrial as having the most potential to bring increased income in to cross fund assets.

- (d) There were currently significant issues around public sector land with the City Council., County Council and others all trying to divest and draw more value for their assets. The proposed Shared Management Arrangement with Allerdale Borough Council was a further issue. Had that latter issue been looked at?

Mr Beaty commented that there were two issues, i.e. the City Council was going through a period of structural change and integration of the Property Review was essential. In addition, a joint Property Review with the County Council, currently focussing on Brampton, was being undertaken. That had stalled somewhat, but the need for closer working particularly on operational assets generally was recognised.

Mr Harris added that the strategic bucket could take that forward.

- (e) A Member commented upon the lengthy decision making processes within Local Government. Organisations were 'land banking' which could be a danger if the

City Council sold land too soon. He emphasised the need for a more strategic way of working.

In response, Mr Harris said that there was no rush to sell assets now, but it was a good time to buy.

- (f) It had been suggested that an external Integrated Property Team be appointed. There was considerable professional expertise within the authority and consideration should first be given to that knowledge and potential gaps.

Mr Harris agreed that internally the Heads of Service did possess skills. Currently there was not, however, an individual who could understand how all the property functions came together, as was the case in the private sector. It was a question of how skills were managed in-house and prioritising what was not a core service for the Council.

The Economic Development and Enterprise Portfolio Holder felt privileged to have had the opportunity of working with the Head of Economy, Property and Tourism; and Property Services Manager whose skills should be acknowledged and supplemented in future. She was very heartened at the work undertaken by the Officers and Montagu Evans which was important for the people of Carlisle going forward.

- (g) Establishing the recommended strategic framework and resourcing the Portfolio Management and Asset Management functions was likely to cost in the region of £200,000 per annum which could be funded by the proceeds of disposing of divest assets, Could that money be ring-fenced to ensure it was not used to plug gaps elsewhere?

The Director of Corporate Services (Ms Brown) explained that £2m had been earmarked for asset investment, £1m of which was for property. It was a capital fund, but could be used to obtain assets. NWDA funding was also being explored.

Referring to NWDA funding, Mr Beaty said the issue was around the ability to invest and do something with the assets once they had been acquired.

- (h) The emphasis appeared to be on industrial, however, Carlisle Renaissance was retail. That appeared to be a contradiction, particularly bearing in mind the limited resources available.
- (i) The Portfolio Analysis did not include any reference to Willowholme Industrial Estate which was not providing a return for the Council. Could that be addressed?

Mr Harris acknowledged the need for something to happen at Willowholme. He would like the Council to focus on and control those types of projects in the future and make a difference.

The Chairman thanked Mr Harris for his informative presentation and responses to Members' questions.

RESOLVED – That the Executive be advised that:

- The Corporate Resources Overview and Scrutiny Committee was broadly in favour of the Asset Portfolio Analysis provided;
- The Committee looked forward to having the opportunity to scrutinise further steps when the priorities were established; and
- Action be taken to ensure a co-ordinated approach to property between the City and County Councils.