



City of Westminster

# Housing, Finance and Corporate Services Policy and Scrutiny Committee

<b>Date:</b>	2 <sup>nd</sup> June 2016
<b>Classification:</b>	General release
<b>Title:</b>	Operational Property Rationalisation Strategy
<b>Report of:</b>	Guy Slocombe – Director of Property, Investment & Estates
<b>Cabinet Member Portfolio</b>	Finance & Corporate Services
<b>Wards Involved:</b>	All
<b>Policy Context:</b>	Investment & Corporate Property
<b>Financial Summary:</b>	The Council's Corporate Property portfolio amounts to 770 buildings combining investment and operational property, with an annual operating cost of £23m and annual income of £24m (excluding exceptional items and capital receipts), and a value of c. £800m
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## 1. Executive Summary

- 1.1. This report is intended to provide background of and an update to the Council's Operational Property Rationalisation Strategy and the intended outcomes.
- 1.2. The Council holds a property portfolio of approximately 800 buildings. Around half are properties held for investment purposes (c. 960 tenancies generating rental income to the Council) and the remaining half are operational properties (schools, depots, care homes, offices, libraries etc).
- 1.3. The investment portfolio generates approximately £24 million of rental income pa to the HRA and General Fund and has a value of c£390 million (April 2015). The cost of running the combined investment and operational portfolios is c£20 million pa.
- 1.4. Local government is faced with increasing financial challenges and WCC similarly must find efficiencies across its business to support the continued provision of front-line services. A target of £12 million is expected to be delivered through rationalisation of the Council's property assets in terms of a combination of operational efficiencies and income generation from assets identified as surplus.
- 1.5. To achieve this, the Council must first fully understand how it occupies its real estate i.e. for what purpose it is used and how intensely it is occupied. This will inform a strategy of

rationalisation which is likely to include creation of local service hubs and accommodation for co-location, along with touch down areas to encourage and enable flexible working.

## **2. Key matters for the Committee's consideration**

- 2.1. The Committee to note that this paper is an update to the Corporate Property Strategy paper previously submitted on 18<sup>th</sup> November, 2015 and discussed by members.
- 2.2. The Committee to note that a further more in depth paper will be submitted to a future Policy & Scrutiny meeting as the project progresses and detail emerges.

## **3. Background**

### **3.1. The Council's Corporate Property portfolio**

- 3.1.1 By way of background the following points were covered in a report to the Committee at its meeting on the 18th November 2015 and this paper provides the Committee with a summary of progress since that meeting.
- 3.1.2 The Council's property portfolio comprises 400 assets held as investments (c. 960 tenancies generating rental income to the Council) and 400 operational properties (schools, depots, care homes, offices, libraries etc).
- 3.1.3 The investment portfolio generates approximately £24 million of rental income pa to the HRA and General Fund and has a value of c£390 million (April 2015). The cost of running the combined investment and operational portfolios is c£20 million pa.
- 3.1.4 BNP Paribas Real Estate has been appointed by the Council to work with the Operational Property team to deliver the Operational Property Rationalisation Strategy (the 'Operational Property Strategy').
- 3.1.5 This paper aims to provide an overview of the Councils Operational Property and to discuss the work that is currently being undertaken by BNP Paribas. It will discuss the rationale and intended outcomes of the strategy and will provide an update on work conducted to date with details of the intended next steps.

## **4 The Council's Operational Portfolio**

### **4.1 Introduction**

- 4.1.2 The Council's operational portfolio comprises 1.4m sq ft of useable accommodation/facilities. Approximately 150 properties comprise "bricks & mortar" real estate having excluded open spaces, gardens, playgrounds, parks and cemeteries. That is not to say that those areas of real estate do not themselves enjoy a latent value which could be leveraged.

4.1.3 The footprint of the portfolio is shown by service in the table below:

Use	Sq m	Sq ft
Estate Offices	2,000	21,500
Libraries	10,900	117,325
Sports & Leisure	32,200	346,600
Depots	4,450	47,900
Community Protection	750	8,070
Offices	26,980	290,410
Children's Services	2,200	23,680
Nursery Schools	11,100	119,500
Adult Services	2,000	21,525
Adult Education	1,500	16,150
Schools	39,000	420,000
<b>TOTAL</b>	<b>133,000</b>	<b>1,430,000</b>

4.1.1 City Hall and Lisson Grove, while in scope, are subject to separate projects aimed at savings/revenue generation. City Hall currently accounts for approximately £6m of the total running costs of the corporate portfolio and the City Hall Refurbishment Programme has identified c. £3m of potential savings.

4.1.2 The combined investment and operational portfolio held in the General Fund costs the Council c. £20m pa per the table below. Premises costs aside from City Hall account for £1m pa and the additional facilities and property management and maintenance programme of the corporate portfolio accounts for c. £6m of the Corporate Property budget.

Category	FORECAST 2015/16 £'000
<b>REVENUE from General Fund investment property</b>	<b>(20,766)</b>
EMPLOYEE COSTS	<b>1,317</b>
PREMISES COSTS	<b>9,689</b>
TRANSPORT EXPENSES	<b>4</b>
SUPPLIES AND SERVICES	<b>2,501</b>
AGENCY AND CONTRACT SERVICES	<b>6,056</b>
TRANSFER PAYMENTS	<b>(506)</b>
TRADED SERVICES	<b>605</b>
<b>EXPENDITURE</b>	<b>19,666</b>

- 4.1.1 Accordingly a review and rationalisation of the operational portfolio will enable significant cost reduction. BNP Paribas and the Operational Property team are working with all of the Councils service departments on a wholesale review of the operational property portfolio through the delivery of the Operational Property Strategy.
- 4.1.2 This review will focus initially on how intensely the property from which the Council provides its services is actually used before determining a strategy for future use, developing efficiencies to include hub strategies, workplace management, service co-locations and alternative delivery models. It remains necessary to consider the impact of the City Hall Refurbishment Programme and Lisson Grove which may create further strategic opportunities post refurbishment, as well as how the Council's operational portfolio overlaps with Tri-Borough.

## 5 Rationale for the Operational Property Strategy

- 5.1 Local government is faced with increasing financial challenges and WCC similarly must find efficiencies across its business to support the continued provision of front-line services. A target of £12 million is expected to be delivered through rationalisation of the Council's property assets in terms of a combination of operational efficiencies and income generation from assets identified as surplus.

- 5.2 To achieve this, the Council must first understand how it occupies its real estate i.e. who uses it, for what purpose and how intensely. This will inform a strategy of rationalisation which is likely to include creation of local service hubs and accommodation for co-location, along with touch down areas to encourage and enable flexible working.
- 5.3 The Council shares some service provision with the Royal Borough of Kensington and Chelsea and the London Borough of Hammersmith & Fulham. We have asked our Tri-Borough team to compile data of Tri-Borough Property usage which will feed in to this strategy.
- 5.4 The Council's housing ALMO, City West Homes, is carrying out a separate review of surplus accommodation in its portfolio and that will be shared and form an important part of this strategy.
- 5.5 WCC commissioned the first stage report towards the end of last year that identified a number of potential opportunities for further exploration. This second stage piece of work is intended to bring a "fresh pair of eyes" to review the findings of the GVA report and to develop upon this, to generate work streams and deliverables. BNP Paribas have been appointed to conduct the Operational Property Rationalisation Strategy.
- 5.6 This strategy is driven by a £12m cost savings target that has been identified by EMT as part of the first stage review. There is recognition of the need to draw out opportunities for work space efficiencies across the operational portfolio. This will ultimately enable a reduction in the footprint of the operational estate.
- 5.7 The cost savings and new revenue from rationalisation of the operational portfolio have been identified an important contribution to the Council's budget arrangements. The rationale for the appointment of BNP Paribas is twofold, to seek to validate and confirm the identified saving target of £12m and to identify the opportunities available to the Council which will realise those potential savings.
- 5.8 Property as a resource should act as a facilitator and enabler to the Council's service provision. It therefore follows that an effective property strategy should reflect the Council's property needs translated from the scope and scale of services provided. It should also be noted that any strategy should be considerate of the cost of property in support of service provision.
- 5.9 Through the delivery of the Operational Property Strategy, BNP Paribas's work is to provide an overarching review of the entire operational estate and initiatives that are being undertaken across several services will feed in to this.
- 5.10 A number of workspace efficiencies and opportunities have already been identified which contribute towards the rationale for this project.
- **Desk Ratios & Decluttering** – Decluttering has consolidated the work environment, provided break out areas and touch-down space and permitted a new ways of working. Offices at City Hall and Lisson Grove are moving to a 7:10 desk ratio as part of a smarter working policy. Adopting a 7:10 desk ratio across the operational estate will generate savings, but the City Hall and Lisson Grove refurbishments will provide an environment to enable a more challenging ratio of 6:10, or 5:10 as RBKC are targeting.

- **Co-locations** – Identify areas of commonality linked to their operational working practices where sharing of space and back office functions results in economies of scale.
- **Hub Strategies/Interim Mini-Hubs** – Identify clusters of services (eg Queen’s Park, Stowe Centre, Porchester Leisure Centre, Churchill Gardens and Church Street) that would suit hub-working. Use existing space in estate offices to create mini-hubs for a phased delivery while we move towards creating the long term solution. The delivery of new hubs may be achieved through rebranding of existing facilities (libraries and Leisure Centre).
- **Potential Development Opportunities** – releasing surplus buildings and land as a result of rationalisation, for change of use, redevelopment and revenue generation. The Council does not have a measured survey of the portfolio yet (this is in production), but on a very high level assumption, releasing say 50,000 sq ft could lead to rental revenue of c. £2m pa
- **Alternative Delivery Models**  
Two key functions for the Council are the provision of library facilities and sports and leisure facilities both of which form a considerable part of the operational footprint. Traditionally there has been the need for public intervention to address market failures in these areas. However, with technological and industry advances, is there an alternative method of delivery? This does not mean closing facilities, but modernising that way in which these services are provided.

BNP Paribas will investigate all of the above initiatives and corroborate within one overarching property strategy.

## 6 Project Objectives and Outputs

6.1 BNP Paribas will deliver a two stage report. First: an understanding of the portfolio and its current use, along with the service demands and local needs. Second: a strategy that delivers a smaller occupied portfolio, local service hubs, co-location and release of surplus assets. This must demonstrate cost savings and income potential as described above.

6.2 The outputs expected are to include:-

- Schedule of operational properties and service occupiers.
- Space utilisation - analysis of floor space and how it is occupied.
- Analysis of total occupational costs, per building and per service.
- Opportunities for hub creation in conjunction with new projects being delivered by the WCC Major Projects Team.
- Identify early wins in terms opportunities for savings.
- Identify co-location opportunities.
- Identify properties that could be made surplus and categorised for:-
  - a) Re-use by services – potential for hub working.
  - b) Commercial letting or sale - proceeds to be recycled by WCC.

- c) Relocations – services that could be delivered from other parts of the Borough to release prime property.
- Quantify extent of opportunities in financial terms:-
  - a) Cost of adaptive work to existing space to deliver a workplace that is fit for purpose.
  - b) Anticipated operational savings.
  - c) Anticipated income from surplus property.
- Project delivery plan – (currently estimated to be a five year plan for delivery and realisation of potential savings).
  - a) Create delivery pipeline.
  - b) Detailing timetable for delivery.
  - c) Detail project savings/income generated per annum.

## 7 Project Progress and Delivery

- 7.1 The first workshop to engage with services was successfully carried out on 13th April. This was introduced by the Director of Property and run by BNP Paribas.
- 7.2 In addition to the service leads, representatives from Tri-Borough and City West Homes were also in attendance in order that property reviews of their estates feed in to and are in scope for the overall programme.
- 7.3 The workshop was well attended and generated a good deal of positive discussion in the room and attendees actively engaged in the workgroup sessions. Services are now aware of the objectives of the project and have been advised that further input will be required in order that the Council's consultants can build an accurate picture of current property use and need, and future use and need. BNP Paribas will review the feedback to identify common themes. It was encouraging to note that the attendees engaged freely and contributed positively to the process.
- 7.4 Each attendee left with a questionnaire to complete to build upon the information gathered on the day and to inform the 1:1 sessions which are currently being undertaken and will conclude by the end of May.

## 8 Key Issues

- 8.1 The attendees highlighted the following key themes that may well affect property need going forward that broadly fell within two categories:-

### **Service Drivers/Considerations**

- Core/Statutory Requirements – the essential need for the service provision.
- Virtual/Online Engagement – increasing activity will influence the property need of the future and the ability to work smarter and become less reliant on physical location.
- Intelligent Partnering – WCC service can be located in delivery partners' accommodation.
- Alternative Delivery Models – reviewing how services can be delivered differently.
- Flexibility – the changing business landscape requires flexible accommodation to support it.

## **Operational Drivers/Considerations**

- Clusters/Hubs – existing clustering of services indicative of hub location.
- Co-locations – complimentary services being delivered alongside each other via one front door.
- Collaboration – services identify shared goals and visions.
- Identify Infrequently Occupied Space – identify complimentary activities and opportunities to intensify use, or release real estate as surplus.
- Reduce Operational Footprint – surplus property identified to deliver new income streams.
- Reduce Operating Costs – contribute towards corporate savings goals.

8.2 The 1-2-1 sessions are currently being undertaken with the individual service departments. The purpose of these sessions is to:

- Collate detailed information and to verify existing data around the properties that are occupied by the individual service groups.
- To ensure that BNP Paribas have a full understanding of the entirety of the operational properties the service departments occupy and/or utilise and any partner organisations that they may share occupation with.
- To discuss particular properties that are fit for purpose and work well for the service group and also to discuss examples that are not fit for purpose.
- To discuss potential co-location/hub opportunities.
- To understand the service departments service delivery models and future objectives and plans.
- To understand who the service departments contracted service providers are.

## **9 Next Steps**

9.1 The expected completion of Stage 1, the data collection exercise and analysis, is by the end of June 2016. Once all the 1-2-1 sessions have been conducted BNP Paribas will undertake inspections of selected properties across the operational portfolio.

9.2 It is envisaged that the combination of the data collection exercise, 1-2-1 workshops and physical inspections will fully equip BNP Paribas to draw the conclusions necessary during phase 2, in order to deliver a holistic property strategy for the Council. This will inform the property team in implementing the recommendations that will ensure delivery of the medium term savings target.

9.3 The expected commencement of Stage 2 is June 2016. This will include:

- Analysis of the data collated during stage 1.
- Verification of the £12m savings target and to draw out what the actual achievable savings would be.
- To present the opportunities available within the operational estate in order to deliver those savings.
- To present a time frame for the delivery of the savings target.



## **10 Delivery Timetable**

- 10.1 Due to the complexity of the Council departments and the various service lines within each directorate, in order to engage with the relevant stakeholders, BNP have found it necessary to schedule quite a few more workshop sessions than originally envisaged. This has delayed the programme by approximately one month.
- 10.2 The expected delivery date for the final report is 30<sup>th</sup> September. While every effort will be made to continue to keep to this timetable it may be that the need for extra sessions and property inspections may delay Stage 1 beyond the expected delivery.
- 10.3 It is important to note that Stage 1 is arguably the most important phase of the programme and therefore an extension in the final deadline in order to fully complete Stage 1 is justifiable. Time lost collecting and collating data from stage 1 can be made up during the stage 2 preparation of the strategy

## **11 Health and Wellbeing implications**

- 11.1 There are no health and wellbeing implications.

## **12 Financial implications**

- 12.1 The cost savings and new revenue from rationalisation of the operational portfolio have been identified as an MTP saving. The saving identified in the MTP schedule of £12m is a target and is not yet based on detailed analysis. It is a rudimentary split between cost savings and new revenue generated from re-use of surplus property created by the rationalisation. However, given the size of the Council's portfolio and following an initial review, the target outcome is achievable.

The result of the work being carried out by BNP Paribas will drive out a more accurate figure for the estimated £12m target figure. It is to be noted that in order to release the £12m figure, there will be a requirement to provide service departments with alternative facilities and this may require the Council to invest in order to release the target savings of £12m.

## **13 Legal implications**

- The Operational Property Rationalisation Strategy will ensure the efficient use of the Council's property assets in line with its fiduciary duty to the Council's taxpayers.
- In some instances the Council has a statutory duty to ensure that certain services are accessible to the local community and this will in turn affect the Council's ability to charge a full commercial rent. For example, WCC Children's Services have a statutory obligation to ensure a certain number of school or nursery places are available to the local community every year. To ensure the continued viability of the commissioned service provider, it would be necessary to compensate them by way of a reduced rent which is proportional to the loss in the provider's income, due to having to release spaces that the Council must make available to the community under its statutory duty.
- Best value under the Local Government Act 1999 introduced the principle that Local Authorities are obliged to "make arrangements to secure continuous improvement in the way in which functions are exercised, having regard to a combination of economy,

efficiency and effectiveness (Section 3 LGA 1999). This is a duty which underpins all Local Authorities' activities and functions and the Council must have regard to it in relation to the new Corporate Property Strategy and maximise the use of assets for the benefit of its area and Council taxpayers.

**If you have any queries about this Report or wish to inspect any of the Background Papers  
please contact:**

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