

## Audit Committee – 24<sup>th</sup> June 2022

|  |  |                               |
|--|--|-------------------------------|
| <b>Title of paper:</b>   | Together for Nottingham Theme Two – Asset Management   |                               |
| <b>Director(s)/<br/>Corporate Director(s):</b>   | Sajeeda Rose Corporate Director for Growth and City Development<br>Nicki Jenkins, Director of Economic Development and Property                          | <b>Wards affected:</b><br>All |
| <b>Report author(s) and contact details:</b>   | Nicki Jenkins, Director of Economic Development and Property<br>Nicki.jenkins@nottinghamcity.gov.uk  |                               |
| <b>Other colleagues who have provided input:</b>                                       | None   |                               |
| <b>Does this report contain any information that is exempt from publication?</b><br>No |  |                               |
| <b>Recommendation(s):</b>  |  |                               |
| 1.   | To take assurance in the governance and control measures in place to manage the risks identified, particularly in relation to pace within the programme. |                               |

### 1. Reasons for recommendations

- 1.1 This paper sets out for Audit Committee Members the progress made on implementing Theme Two of the Together for Nottingham Plan and the associated asset rationalisation programme.

### 2. Background

- 2.1 The refresh of the City Council Recovery and Improvement Plan, rebranded as Together for Nottingham, was approved by Executive Board on 10th January 2022. That document contained a refreshed theme two, which described the Councils approach to ensuring that sufficient capital receipts are generated, using asset rationalisation to meet the current commitments within the capital programme, provide additional cash flow to mitigate budget pressures and fund a transformation programme.
- 2.2 In order to achieve this we needed to a) accelerate the sale of those currently declared surplus and on the existing asset rationalisation programme, b) increase number of assets for disposal onto the programme and c) provide assurance on the way in which we sell our assets.

#### **Progress to Date – Capital Receipts**

- 2.3 Following the establishment of a robust, risk adjusted forecast for capital receipts, which was based upon those assets that had already been identified for disposal and the timescale expected until completion, the achievement to date (as detailed in Table 1 below) has been positive with £36.0m generated and the forecast as at the start of the financial year for the previous two years to date being exceeded.

| Year         | Forecast in April | Amount Achieved |
|--------------|-------------------|-----------------|
| 2020/21      | £11.9m            | £12.9m          |
| 2021/22      | £7.9m             | £17.8m          |
| 2022/23      | £33.8m            | £5.3m           |
| <b>Total</b> | <b>£53.6m</b>     | <b>£36.0m</b>   |

**Table 1 – Capital receipts achieved against April forecast**

- 2.4 The forecast for future years is detailed in Table 2 and includes the total pipeline forecast (less costs), and a forecast that is adjusted for risk, based upon the stage the asset currently sits on within the disposal process. It is the risk adjusted figure, which is used as the target and as a basis for the capital programme.

|              | Capital Programme Commitment (EB Feb 22) | Total Pipeline (less costs) | Risk Adjusted (less costs) |
|--------------|--|-----------------------------|----------------------------|
| 2022/23      | 17.316                                   | -51.263                     | -33.792                    |
| 2023/24      | 17.025                                   | -20.371                     | -11.565                    |
| 2024/25      | 7.238                                    | -21.578                     | - 8.286                    |
| 2025/26      | 7.116                                    | 0                           | 0                          |
| <b>Total</b> | <b>48.695</b>                            | <b>-93.212</b>              | <b>-53.642</b>             |

**Table 2 – Capital receipts forecast**

- 2.5 The total amount in the pipeline is currently £93.2m over the next three years. Due to the pace required, focus to date has been on the identification and delivery of assets that can be sold quickly to achieve an immediate capital receipt, rather than increasing the pipeline for future years.

### **Progress to Date – Assets Action plan**

- 2.6 The refreshed Together for Nottingham plan identified three core projects for delivery under the assets theme,
1. Asset Disposal
  2. Corporate Landlord
  3. Community Assets
- 2.7 Detailed progress against which can be found in appendix 1. To date progress has been positive, however the overall plan is still rated as amber due to the high level of risk associated with the forecast in this financial year, which is due to a small number of high value (£2.5m - £15m) assets which are due to complete in this year.

### **Asset Disposal**

- 2.8 The overall purpose of this project is to ensure there is a robust forecast of capital

receipts to inform planning for the capital programme, ensuring the subsequent delivery of capital receipts and that appropriate assurance is in place throughout the decision making process.

- 2.9 Of the fourteen actions identified within the plan, eleven have been completed and four are in progress and the project is therefore rated as amber.
- 2.10 As outlined above, over the last two years we have succeeded in delivering capital receipts in excess of the forecast at the start of the year. In order to deliver this and to manage future risk of failure to deliver, a number of actions have been taken including;
- Implementation of robust/risk adjusted forecasting methodology,
  - Development and implementation of Disposals policy – disposal of surplus property as default position.
  - New programme governance implemented
  - Prioritisation of high value assets on pipeline, with increased monitoring.
  - Used different selling methods e.g. auctions to speed up disposal.
  - Carried out review of Investment Portfolio – bringing forward recommendations for disposal.
  - Asset review of commercial portfolio in progress.

### **Corporate Landlord**

- 2.11 The Corporate Landlord project recognised that an improved model for property management across the Council was needed to ensure that benefits were maximised and the Council continued to hold an estate that met its needs.
- 2.12 Of the four actions, two are complete and two are in progress and rated as amber.
- 2.13 In summer last year CIPFA Property Services were commissioned to undertake a review of how the Council manages its property assets, the outcome from which was a key recommendation to move towards a Corporate Landlord model. This has been accepted and an implementation programme in two phases will start over the summer.

### **Community Assets**

- 2.14 The Council has a number of properties that are let to community groups for minimal rent, often where this is the case without formal agreements, which creates increased risk to the Council. This project aims to change the approach to community asset leases to ensure values are maintained, community assets are fully utilised and community organisations are clear in terms of roles and responsibilities.
- 2.15 Of the three actions, one has been completed and the remaining two are in progress and are also rated as amber.
- 2.16 Progress under this project has experienced delays due to capacity issues within the Property function as a number of personnel left the organisation. This meant that resources had to be prioritised to deliver the other two projects as they were deemed to be a higher priority and risk to the Council.
- 2.17 Additional short term capacity pending the implementation of a new structure as part of the implementation of the Corporate Landlord has now been recruited and is taking these actions forward.

- 2.18 The Community Asset Policy has now been drafted and is out to external consultation, with the aim of approval and implementation over the summer.

### **Governance and Assurance**

- 2.19 In Sept 21 the Council agreed a new Disposals Policy, to provide assurance over disposal of its assets. As well as ensuring consistent decision making, the policy also outlined governance arrangements relating to asset rationalisation.
- 2.20 Once a property asset is identified as surplus the Property function will instigate the process to dispose. Properties will only be sold after rigorous option appraisal, which includes advice from all relevant departments, but particularly legal, finance and property. Once the options appraisal has been undertaken this is presented for decision with clear recommendation to dispose and via which method.
- 2.21 Recommendations will be agreed by the Corporate Property Asset Management Group, made up of senior officer representatives, including finance and legal. Final approval to dispose is then in accordance with the council's formal governance arrangements.
- 2.22 The Asset Rationalisation Board (ARB), which is Chaired by the Leader, is presented with reports on progress against the forecast, on the high value assets and an overview of assets coming through for disposal.
- 2.23 In the early stages of the programme ARB was meeting on a fortnightly basis, however this has extended over time as things have progressed and now meets on a six weekly basis.

### **Risk Management**

- 2.19 Delivery of the asset management theme, follows a traditional risk management approach, with a risk register rated on severity, which is reviewed and updated on a monthly basis. The current risk log is attached in appendix 2.
- 2.20 There are a number of high rated risks identified, the mitigations for which are also incorporated into the theme action plan, which is also monitored on a monthly basis, reports are also taken into the Asset Rationalisation Board.

### **3. Background papers other than published works or those disclosing exempt or confidential information**

- 3.1 None

### **4. Published documents referred to in compiling this report**

- 4.1 None

## Appendix 1 – Asset Management Theme Action Progress

|                              |                            |             |          |
|------------------------------|----------------------------|-------------|----------|
| Progress Against Action Plan |                            |             |          |
| Theme / Programme            | Theme 2 – Asset Management | Report Date | 05/04/22 |

|  |      | Deliverable: RAG  | Amber    |           |     |
|--|------|---|----------|-----------|-----|
| Project                                  |      | Milestone / Deliverable   | Date     | Comments  | RAG |
| <b>Project 1:<br/>Asset<br/>Disposal</b> | 1.1  | Review of 2021/22 budget savings to identify assets that will become surplus and timescales, agree with service areas to move these into the asset disposal programme once declared surplus.                                | May 21   | Complete  |     |
|  | 1.2  | Recruitment of Interim Head of Property and additional interim capacity to accelerate the disposals work  | Jan 21   | Complete. |     |
|  | 1.3  | Review of disposal process, identifying options for acceleration and generating greater financial returns   | April 21 | Complete. |     |
|  | 1.4  | Review of disposals programme forecast risk   | April 21 | Complete  |     |
|  | 1.5  | Implementation of monitoring and review process   | April 21 | Complete. |     |
|  | 1.6  | Ensure disposal targets related to capital programme gap are agreed and the relationship with pipeline (risk-adjusted) are understood and monitoring is in place.   | July 21  | Complete  |     |
|  | 1.7  | Bring forward assets identified for disposal  | July 21  | Complete  |     |
|  | 1.8  | Development of disposals policy to ensure the transparency of decision making.  | June 21  | Complete. |     |
|  | 1.9  | Identification of initial list of assets for disposals from the property trading account.   | May 21   | Complete. |     |
|  | 1.10 | As a holding position, prior to the implementation of the Corporate Landlord model, to review the process for services to declare properties surplus, ensuring the current process being used is efficient and transparent. | Jan 22   | Complete  |     |

|  |      | Deliverable: RAG   | Amber   |   |     |  |
|--|------|--|---------|---|-----|--|
| Project                                      |      | Milestone / Deliverable  | Date    | Comments  | RAG |  |
|  | 1.11 | Undertake a review and develop recommendations for the disposal of investment properties   | Jan 22  | Complete  |     |  |
|  | 1.12 | Procure and implement specialist expertise to support the sale of investment assets  | Feb 22  | Complete  |     |  |
|  | 1.13 | Ongoing engagement with service areas to identify further assets that are identified as surplus as a result of transformation programme and budget savings.                              | Sept 23 | Operational Asset Group established to monitor and co-ordinate operational assets coming forward for disposal. The property function is working closely with teams as proposals develop. Additional property capacity has been appointed to support this process. |     |  |
|  | 1.14 | Deliver full asset review of the commercial portfolio to develop pipeline for future years.  | June 22 | Asset review is progressing with 2-3 properties are progressing for decision to dispose on a monthly basis. Progress over the last 2 months has slowed due to staff illness, however it is anticipated that the full review will be completed in the autumn.      |     |  |
| <b>Project 2:<br/>Corporate<br/>Landlord</b> |      | Agree with CLT that the Corporate Landlord model is the desired approach for the Council and undertake an independent review to provide detailed proposals for taking the model forward. | Sept 21 | Complete  |     |  |
|  |      | Following the independent review to develop recommendations and implementation plan for approval   | Feb 22  | Complete  |     |  |
|  |      | To establish project group and transformation team to deliver the change programme   | May 22  | Transformation funding agreed at March Transformation Board to commission resources to support the implementation of the programme. Specification for the support required developed and currently in procurement. Expected to                                    |     |  |

|   |  | Deliverable: RAG   | Amber    |   |     |
|---|--|--|----------|---|-----|
| Project   |  | Milestone / Deliverable  | Date     | Comments  | RAG |
|   |  |  |          | have in place for June 22.  |     |
|   |  | To commence implementation of phase one of the new arrangements                            | May 22   | Implementation commenced. Alignment of core functions to take place through corporate redesign process, due to be implemented May/June. Work already underway within teams to look at opportunities for greater collaboration.              |     |
| <b>Project 3:<br/>Community<br/>Assets<br/>Review</b> |  | Review community assets to identify potential properties for disposal or a change in terms | Jun 21   | Complete.   |     |
|   |  | Develop and adopt a community asset property policy  | March 22 | Progression against this action has been delayed due to staff exiting the organisation and prioritisation of other actions. Policy in draft form, currently out for external consultation. Expected to be finalised by end of June          |     |
|   |  | Ensuring appropriate arrangements are in place for existing community tenants              | April 22 | Progression against this action has been delayed due to staff exiting the organisation and prioritisation of other actions. Additional capacity has been recruited and work is underway to ensure that appropriate agreements are in place. |     |

## Appendix 2 – Assets Theme Risk Register

| Key Risks – Asset Management Theme  |  |          |   |               |
|---|--|----------|---|---------------|
| Key Risk  | Risk Description   | Severity | Action  | Owner         |
| The Council's generation of capital receipts does not reach the levels or timescales required   | The Council is unable to balance its financial needs and this may impact on the ability of the Council to deliver services.<br><br>Impact on reputation/ trust | Red      | Ongoing review of forecast to provide accurate basis upon which to prioritise capital programme.<br><br>Expansion of the pipeline of disposals to generate capital receipts through a full asset review of the commercial portfolio.<br><br>Prioritisation and ongoing monitoring of high value disposals.                                  | Nicki Jenkins |
| Year 22/23 capital receipt forecast is dependent upon a small number of high value assets.  | The Council is unable to balance its financial needs and this may impact on the ability of the Council to deliver services.                                    | Red      | Prioritisation of delivering high value disposals.<br><br>Weekly monitoring of progress at team level, with report to every Asset Rationalisation Board.<br><br>Immediate escalation of issues.<br><br>Asset review process to focus on disposals that can be achieved in short time scales to supplement forecast for this financial year. | Nicki Jenkins |
| Team capacity to deliver the asset rationalisation programme  | Team capacity to delivery business as usual due to large staff turnover impacts on ability to deliver the work programme.                                      | High     | Tight prioritisation of assets moving forward for disposal.<br><br>Increased interim capacity secured.<br><br>New property structure to deliver increased capacity to the team for disposals<br><br>Securing additional legal capacity to support disposals.  | Nicki Jenkins |
| In generating receipts the Council creates larger long term revenue pressures on its base budget or does not consider the impact of investment properties and | The Council budget is not sustainable in the longer term and may affect the ability to deliver services.   | Amber    | Asset review process and review of investment properties to take into consideration revenue impacts of potential sales and to ensure this is included as part of the information when decisions to sell are made.<br><br>Prioritisation of assets to dispose, which have low revenue pressures.   | Nicki Jenkins |

| Key Risks – Asset Management Theme   |   |          |  |               |
|--|---|----------|--|---------------|
| Key Risk   | Risk Description  | Severity | Action   | Owner         |
| yield  |   |          | <p>Monitoring cumulative impact of decisions made on revenue.</p> <p>Some provision within property budgets to cover revenue loss. Existing performance of property holdings will be reviewed to ensure that their efficiency is maximised (for example around voids, debt collection, rent reviews etc), to ascertain how far any loss can be contained.</p> <p>If further mitigation is required after this then that will be picked up in realistic income assessments within the MTFS.</p> |               |
| Disposal of operational assets is dependent on decisions taken within services.                                  | Decisions can often be elongated and complex.   | Red      | <p>Operational asset group established to monitor/co-ordinate progress. Strategic asset management team works proactively with services. Increased capacity within the Strategic Asset Management function through property restructure process.</p>   | Nicki Jenkins |
| Disposal of/ new arrangements for Community Assets create genuine political tensions, given existing commitments | Complicates decision making   | Amber    | <p>Implementation of community asset policy. Clear governance and decision-making process implemented. Benchmarks with other local authorities to ensure good practice. Clarity on the priority of objectives agreed with Members. Members are engaged with decision-making around Community Assets to enable all options to be weighed up quickly and effectively</p>   | Nicki Jenkins |
| Market conditions impact on the sale of assets   | <p>Decreased value due to market saturation/ decreased appetite for office space/ assets following the pandemic and reluctance to return to the workplace.</p> <p>Decreased value due to view of council negotiating position by market (as vulnerable/ dependent on sales)</p> | Red      | <p>Ensure market conditions are considered when undertaking valuations/ forecasting income. Have a clear strategy for disposals that reflects market activity and adapt approach as required to respond to need</p>  | Nicki Jenkins |