

Asset Management Plan

for Spelthorne Borough Council



“OUR VISION IS TO MAXIMISE VALUE, MINIMISE COSTS AND ENHANCE REVENUE THROUGH EFFICIENT MANAGEMENT AND EFFECTIVE AND AFFORDABLE MAINTENANCE”

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NB: Covid-19

This document was drafted prior to the national restrictions imposed by the Covid-19 pandemic, however all the principles established within this Asset Management Plan have been applied during the crisis.

1.0 INTRODUCTION

1.1 Spelthorne

Spelthorne Borough Council covers an area of some six by two and a half miles. It has an estimated population of around 98,500 and a significant employment base.

It is 15 miles from central London and shares its northern border with Heathrow Airport, a major local employer and a significant positive influence on the local economy. Its southern boundary is defined by the River Thames.

The main town in Spelthorne is Staines-upon-Thames. Other urban areas include Ashford, Shepperton, Sunbury Cross, and Stanwell

Staines-upon-Thames serves an area well beyond the Borough, for retail and as a large office and commercial focus. It has direct rail links to Waterloo, Reading, Windsor and Weybridge and is within 10 minutes' drive to the M25 and Terminal 5. It is the nearest significant town to Heathrow Airport.

Sunbury-on-Thames is the second major office location within the Borough, adjacent to Junction 1 of the M3. The nature of Spelthorne's economy reflects its major growth in the 20th century. Between the 1920s and 1960s the Borough's population increased more than 3-fold, mirrored by extensive housing development.

Spelthorne has exceptional communication links, a substantial business base and overall a strong economy. However, it is characterized by a greater representation of unskilled and semi-skilled work than other parts of Surrey, driven by its more industrial heritage and airport associated industries.

1.2 Why the Council owns and uses property

Spelthorne Council is the administrative body for the area, providing a wide and varied range of local services to residents and businesses, from community buildings, planning and housing support through licencing, permits and food safety to parks and car parking. A full list of the Council's services is provided at Appendix 1.

To enable the delivery of these services, the Council needs to occupy and provide a range of buildings. Often, the most cost-effective way for this to be done is by owning the premises, as the Council has a long term role in the community.

The Council also needs to generate an income to help pay for its services, to reduce the burden of cost on local people and businesses. To this end, the Council has, since 2016, in response to the need to offset the impact of disappearing central government revenue grant support, embarked on a programme of capital investment in income producing property, to support its revenue budget and maintain and enhance the services it can provide. These investments, all located within the Heathrow functional economic area include:

- The BP campus at Sunbury on Thames
- Elmbrook House, Sunbury on Thames
- An office building at Stockley Park, Uxbridge
- World Business Centre 4 at Heathrow
- An office building at Hammersmith Grove
- And a portfolio of 3 offices at Uxbridge, Slough and Reading

The focus of investment has now shifted towards property that enables residential development, and strategic acquisitions that support local regeneration. These include:

- Long leasehold of the Elmsleigh Centre, Staines-upon-Thames
- Leasehold interest in Communications House, Stains-upon-Thames
- Thameside House, Staines-upon-Thames
- Ceaser Court, Sunbury
- Oast House, Staines-upon-Thames
- Churchill Way, Sunbury
- The Bugle Returns, Halliford
- Harper House, Ashford
- Summit Centre, Sunbury on Thames



Fig 1 Location of commercial assets

These more recent property related activities sit alongside the existing Council asset base, which largely comprises municipal and community property, owned to support the delivery of services. This includes:

- Council offices at Knowle Green
- White House Depot, Ashford
- Car parks
- Public conveniences
- Community centres
- Leisure facilities, such as Spelthorne Leisure Centre
- Community Halls
- Parks, recreation grounds and open spaces, such as Fordbridge Park and Laleham Park
- Play areas such as Grove Play area and Moormeade playground
- Allotments
- Memorials, including 7 war memorials in Ashford, Laleham, Littleton, Shepperton, Staines-upon-Thames, Stanwell and Sunbury-on-Thames.
- Cemeteries

The Council also has strategic landholdings associated with its regeneration objectives, and longer-term development opportunities. These include locations such as the Elmsleigh Shopping Centre, and the adjacent Communications House office building in Staines-upon-Thames. With the property portfolio also comes energy usage and climate change related issues which the Council will need to address in its current and future developments.



Staines-upon-Thames Leisure Centre



War Memorial Staines-upon-Thames

1.3 Purpose of the Asset Management Plan

The Council's overall property portfolio has a capital value of in excess of £1bn as at 31.3.19. With a substantial investment portfolio, an emerging housing company and a significant municipal asset base with some £75m of operational plant and equipment as at 31.3.19 there is a clear need to ensure that the property Spelthorne owns, uses, develops and has invested in is fit for purpose, managed effectively and represents value for money.

The aim is to minimise long term risk to the Council and its local population and help sustain the local economy, the Council, the delivery of its services and mitigate the longer term impacts of climate change.

This Asset Management Plan sets out the principles for ongoing ownership and management of the Council's property.

The core principle that applies across the entire estate is that:

“The Council will own the optimum estate to enable the effective delivery of its services and objectives. This will be managed efficiently, effectively and on a basis that represents value for money and ensures future sustainability.”

Asset Management Core Principle 1

The development of an up to date Asset Management Plan, setting out the way in which the Council uses and controls its assets, is key to implementing robust processes and procedures to demonstrate how this principle is being applied.

The aim is to ensure that risks are properly understood and managed, and that plans are in place to protect the Council's asset base whatever function it is performing, and to enable appropriate challenge based on meaningful evidence of performance over time.

2.0 CONTEXT AND DRIVERS

2.1 National Context, and Government Guidance

Over the last decade, local authorities have suffered a significant reduction in revenue support grant and other government funding. This has led councils to review their areas of greatest cost and value, with a view to improving their overall financial position.

This has included reviewing their property ownership to ensure that any surplus property is identified and disposed of or re-purposed, and investing in income producing property assets to support the delivery of local services and to secure revenue sustainability.

UK Councils have historically held sizeable property holdings and have been free to invest in property for purposes relating to service delivery and statutory functions. They can acquire property both within and outside their administrative areas and can borrow money from the Public Works Loan Board (PWLB), and other sources for purchases at relatively low interest rates.

Where the income from the properties exceeds the loan repayment obligations and other costs of ownership, the authority can keep the difference and spend it on supporting local services.

Borrowing and investment forms part of local government capital finance, so is governed by:

- The Chartered Institute of Public Finance and Accountancy’s (CIPFA) Prudential Code for local authority finance.
- CIPFA’s treasury management guidance for local authority funds, and
- The Ministry of Housing, Communities and Local Government’s (MHCLG) statutory guidance on local authority investments.

CIPFA revised the Prudential Code during 2017; and the then Department for Communities and Local Government (DCLG) launched a consultation on updating its two sets of statutory guidance in November 2017, which came into effect on 1st April 2018.

Revenue Support/Transition Grant

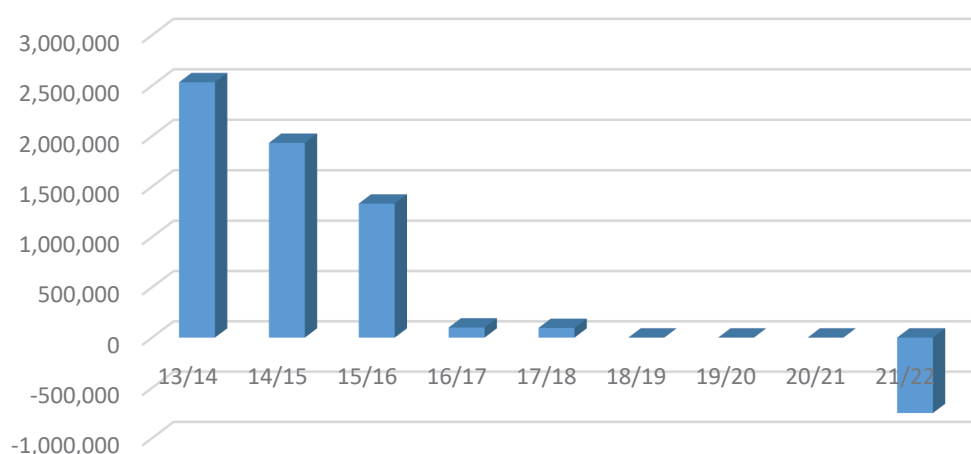


Fig 2: Reduced Government Funding

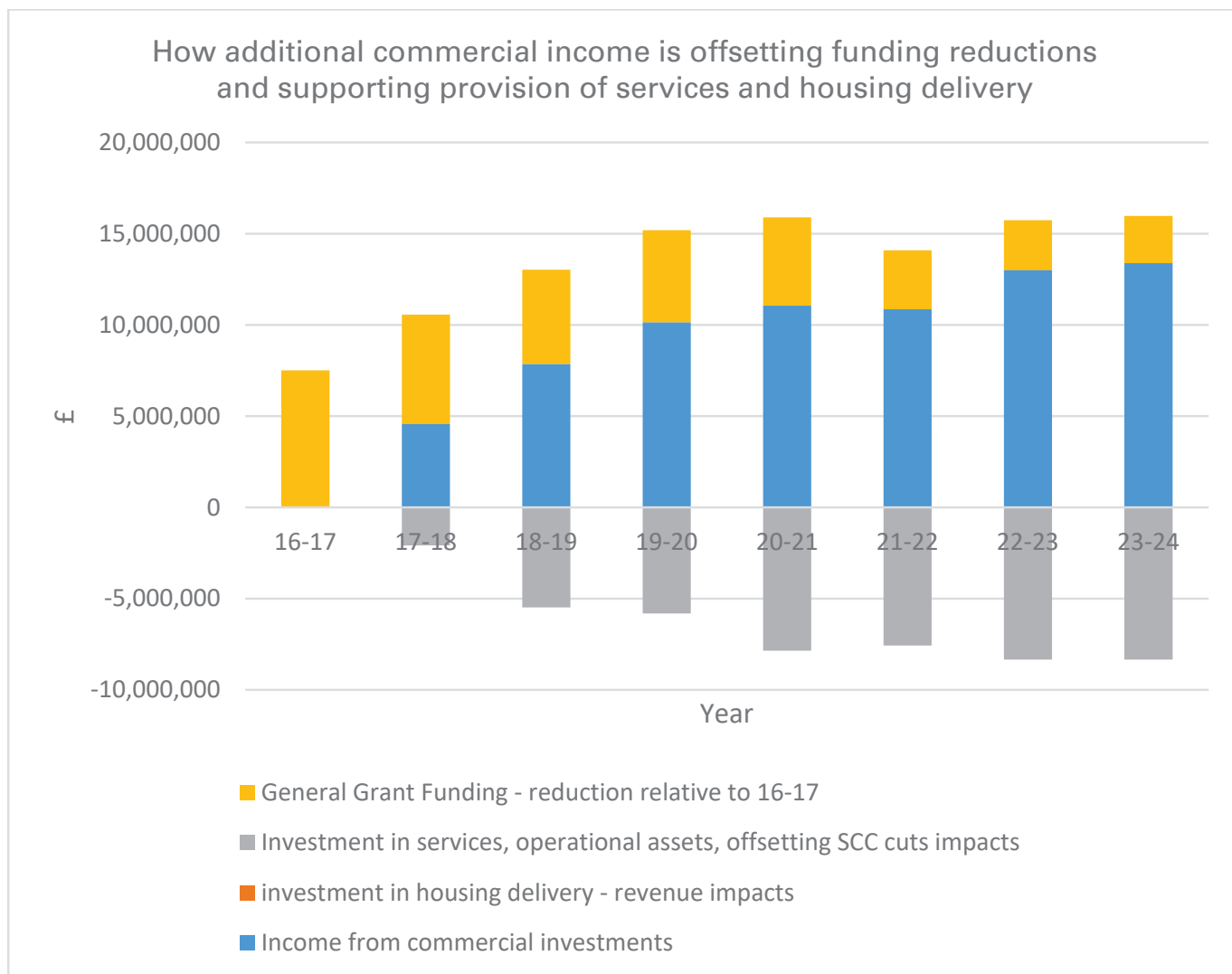


Fig 3: Increase in property income to offset decline in government funding

Until 2018–19 commercial property was not included in the definitions of investments in either the Treasury Management Code or the Governments statutory investment guidance for local authorities. Investment risk was assessed against security, liquidity and yield.

Since new guidance was published in February 2018, investments are defined as

“all of the financial assets of a local authority as well as other non-financial assets that the organisation holds primarily or partially to generate a profit: for example, investment property portfolios”

The revised guidance calls for more robust management of commercial activity and borrowing for investment. Councils must articulate their long term investment plans in their Capital Strategy, looking at risk and reward, appetite for risk, stronger linkages to asset management planning and a strategic long term approach to property. Property investments do not need to be prioritised on the basis of security and liquidity ahead of yield, but can be considered on a portfolio basis, and the local authority can determine the relative importance of these three characteristics.

It is in this context, in parallel with the wider need to ensure that the Council’s property is fit for purpose, represents value for money and addresses future climate change, that this Asset Management Plan has been developed in conjunction with the Council’s current Capital Strategy and the very recently adopted Housing Strategy 2020–2025.

2.2 Corporate Plan Priorities

The Corporate Plan 2016 – 2019 (which is currently being updated) (https://www.spelthorne.gov.uk/media/3622/Spelthorne-Corporate-Plan-2016-2019/pdf/corporate_plan.pdf) identifies the Council's priorities, aims, values and plans to achieve a sustainable future. In summary these are:



Fig 4: Corporate Plan priorities

Property is core to the delivery of each of these objectives, as follows:

Housing:

- Striving to meet the housing needs of residents, in particular
 - » Using Council owned land to enable delivery of adequate local housing for key workers, and an adequate supply of affordable housing, as well as boosting supply of private rental
 - » Addressing emergency accommodation needs for single people and families
- Direct investment in existing buildings
 - » Converting properties to provide homes
 - Council owned/re-purposed
 - Acquired for the purpose
 - » Developing sites
 - Council owned
 - Acquired for the purpose
 - » Making the best use of existing housing and increase local supply

Economic development:

- Stimulating investment and prosperity
 - » Using existing assets to stimulate the local economy through regeneration and re-purposing

Clean and safe environment:

- Providing well managed, maintained and sufficient leisure facilities
- Providing well managed, maintained and protected green spaces
- Minimising the environmental impact of operational assets

Financial Sustainability:

- Investment in residential and commercial properties to meet needs, address priorities, generate required sustainable revenue streams and create long term value
- Making best use of existing assets – including exploring opportunities for co-location of services
- Managing risk including the risks of impacts caused by climate change
- Reducing costs – more efficient use of space, challenging use where better value may be delivered through change

The Plan recognises the need to manage costs, and to generate income to protect and maintain the delivery of core services. To this end, as part of its drive towards Financial Sustainability, the Council implemented a programme of capital investment in income producing property. This now supports its revenue budget thus maintaining and enhancing the services the council can provide. These investments and the roles they perform are considered in more detail later in the document.

In total, the portfolio currently represents a very significant investment of over £1billion (net balance sheet value as at 31.3.19) which generates a net (after financing costs, and sinking fund contributions) income of over £10million per annum.

In addition to this major investment in income producing assets, the Council has also established a wholly owned local Housing Management Company, Knowle Green Estates Ltd (see Section 7 for more detail).

2.3 Capital Strategy

The Council’s Capital Strategy ([https://www.spelthorne.gov.uk/media/20046/Capital-Strategy/pdf/S010801_Spelthorne_Capital_Strategy_Full_v9_\(with_links\).pdf](https://www.spelthorne.gov.uk/media/20046/Capital-Strategy/pdf/S010801_Spelthorne_Capital_Strategy_Full_v9_(with_links).pdf)) sets out how the Council will prioritise its capital expenditure, and how the expenditure will enable delivery of corporate priorities for Housing and Economic Development. It identifies 3 key priorities, in line with the Corporate Plan:

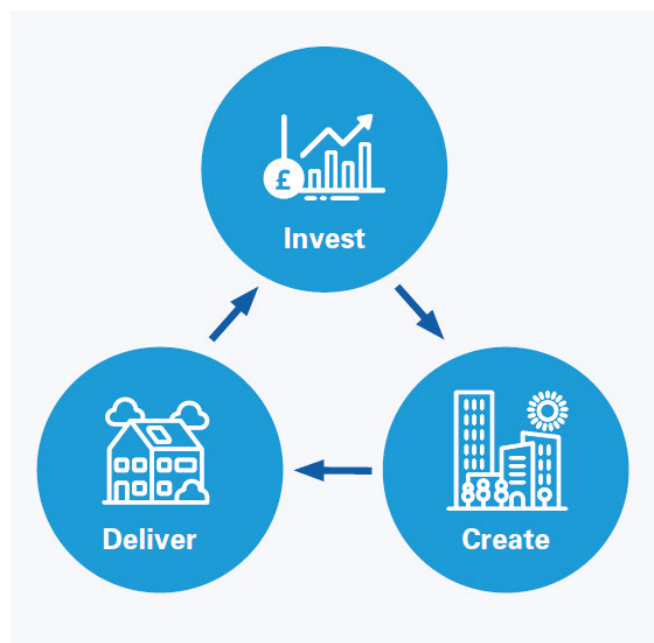


Fig 5: Capital Strategy Priorities

Investing in commercial property to derive revenue
Creating new housing and town centre regeneration
Delivering affordable homes and prioritising people on the Housing Register

2.4 The Local property market – impact on the Council’s priorities

The commercial property market in Spelthorne is dominated by the influence of Heathrow Airport, within a 10-minute drive time of Staines-on-Thames. Heathrow Airport and related industries represent the largest employers in Spelthorne. Other major employers include BP and Shepperton Studios, as well as the public sector.

Spelthorne benefits from excellent links to the transport network, via the M25, M3 and the M4, and to surrounding boroughs and central London by rail. Any future expansion of Heathrow (no matter what final form it takes) will sustain and attract ongoing local employment opportunities to the area.

Commercial property

Of particular importance to Spelthorne’s investments is the performance of the local and regional office market. Research¹ indicates that in the last 12 months (Q1 2018 to Q1 2019), prime office rents in the Heathrow area have seen in excess of 10% increase. Take up has also increased in key sectors such as Tech, Media and Telecommunications, and in serviced offices. Both of these sectors are represented in the Council’s Investment Portfolio.

The Thames Valley region as a whole, in particular Reading, Uxbridge, Heathrow and Staines-on-Thames is predicted to experience ongoing office rental growth to 2020 and beyond.

Even setting aside the current uncertainty around the expansion of Heathrow Airport in light of the Court of Appeal decision in February 2020, there are already over 3,000 further hotel bedrooms already planned to meet existing growth in demand. The development of a third runway (if it were to take place in the form that Heathrow consulted on in summer 2019) has been assessed to require some 21,000–23,000 additional hotel bedrooms by 2040, taking into account those expected to be displaced by the works. This represents over 90 new hotels to serve the region, some 40 of which are anticipated to be needed by 2027². If a lesser, or more incremental scheme were to come forwards this would reduce these figures but an increased demand would still exist.

If a third runway were still to happen, it is also anticipated to result in a doubling of the cargo transport passing through Heathrow, which will have a direct impact on the demand for warehouse and logistics related development in the surrounding area. There is already a shortage of warehousing compared to demand, and a restricted supply of land suitable for additional warehouse development. This indicates that demand will accelerate faster than supply, leading to rental growth and strong occupier take up of any new floorspace³. If a lesser, or more incremental scheme were to come forwards an increased demand would still exist.

Such growth in local employment will undoubtedly bring additional demand for local housing, which in turn should help to sustain the local retail sector. Retailing in the UK is however experiencing structural change, as a result of a modal shift in shopping away from the high street to on-line and mobile spending. Town centres such as Staines-upon-Thames, and in particular purpose-built shopping centres are experiencing a period of vulnerability, and an increasing number of retailers are contracting their representation to only major destination centres. Whilst additional demand and growth in the local economy will benefit Staines Town Centre, it is unlikely to be immune from the structural changes taking place nationally.

The implications of this for the Council are that to sustain the strength of the local economy positively, it will need to assess how the growth in commercial demand and the resultant impact on local housing need can be accommodated. It will also explore how the town centre can be protected, enhanced and diversified (addressing the need for arts, culture and leisure facilities within towns) to have a positive long term future role for the community. This suggests a pro-active need to review landholdings for suitable development potential, and to identify any opportunities to re-purpose existing land and buildings to meet anticipated demand and future climate change risks. It also highlights the need for town centre regeneration plans to be developed. To this end a masterplan for Staines upon Thames is underway as part of the Local Plan and is expected to be completed Winter 2020/21.

¹ Lambert Smith Hampton 2019

² GVA 2018/9

³ Jones Lang Lassalle

The Housing Market

Looking firstly at houses for sale, the housing market in Spelthorne indicates average house prices for February 2018 – February 2019⁴ as follows:

Property Type Feb 18–Feb 19	Average value		Average value per m ²	
	Spelthorne	Surrey	Spelthorne	Surrey
Detached	£698,828	£908,842	£4,510	£5,167
Semi detached	£429,539	£498,406	£4,424	£5,231
Terraced	£366,866	£436,196	£4,392	£5,694
Flats	£271,803	£320,075	£4,672	£5,630
	Spelthorne	% of Surrey	Spelthorne	% of Surrey
Detached	100%	77%	100%	87%
Semi detached	100%	86%	100%	85%
Terraced	100%	84%	100%	77%
Flats	100%	85%	100%	83%

Fig 6: Comparative average values

This demonstrates that house prices in Spelthorne are lower than the averages for the rest of Surrey by in the order of 17%. This makes Spelthorne a relatively attractive place to live in terms of regional affordability

to new residents who cannot afford the more expensive surrounding areas. That said, this does not mean that prices are affordable for local people looking to purchase a property.

Average house price to income ratio		Comparison with adjacent boroughs					
Year	Spelthorne	Runnymede	Hillingdon	Hounslow	Richmond	Elmbridge	England
2015	8.8	9.2	10.4	10.1	17.3	14.8	7.5
2016	10.9	10.5	11.8	10.8	18.2	15.3	7.7
2017	11.1	10.9	12.3	11.1	19.9	16.4	7.9
% increase in 3 years	26%	18%	18%	10%	15%	11%	5%

Fig 7: Comparative average house price to income ratio

⁴ Zoopla

This shows that the affordability of homes in Spelthorne has worsened more rapidly than in any of the surrounding boroughs over the last three years, and that the affordability ratio now exceeds that of Runnymede and equals that of Hounslow. It is considerably higher than the average for England as a whole.

For many of local workers, in particular those associated with the relatively lower paid work associated with the operation of the airport, associated logistics and the wider supply chain, this will render the purchase of a home unattainable. The lack of affordable houses to buy will in turn put additional pressure and demand on the stock of housing to rent.

In terms of the rental market, the growth in rental values over the last 5 years⁵ has been analysed for Spelthorne in comparison with adjacent boroughs. This is set out in full at Appendix 2.

These statistics demonstrate that single rooms, studios, 1 and 2 bed rental properties (those in most demand) have seen a 15% to 22% increase over the last 5 years, during a period when average UK annual wage growth stood at only 3.2%, representing only a cumulative increase of 13.4% in total over a 5 year period. Many areas of work, particularly those in the public sector, have seen no pay increases during this period due to ongoing national austerity policies.

The analysis also demonstrates that rental costs of 1 bed properties have increased faster in Spelthorne than in all surrounding areas other than Hillingdon. For 2 bed properties the increase is equalled only by Runnymede at 20%, with most other areas showing an increase of less than 10%.

In relation to average earnings, 1 bed properties are less affordable in Spelthorne than in Runnymede and Elmbridge, and 2 beds are less affordable in both these locations and in Hounslow.

In terms of availability, at the time of publishing, there were some 19 × 1 bed flats and some 39 × 2 bed flats

on the market in the whole of Staines-upon-Thames. Demand for 1 and 2 beds in this location is high. The lowest asking rent for a 1 bed flat was £800 per calendar month, ranging up to £1,295 per calendar month, plus bills. With an average weekly wage of some £600, this suggests that lower paid workers will be earning considerably less than this figure and are likely to fail to meet minimum earnings levels set by private landlords and letting agents, and will be unable to afford anything other than some form of shared accommodation, if it is available.

The asking prices for a 2 bed flat started at £1,050 and range up to £1,525 per calendar month plus bills. With such a limited market, the evidence indicates that local workers are at risk of being priced out of the area.

This reinforces the need for action to be taken to provide both affordable and market housing in Spelthorne to cater for local need, and for local workers. This supports the level of priority given in both the Corporate Plan and the Capital Strategy to the delivery of housing. This underpins the Council's action in establishing Knowle Green Estates (see Section 7.0 for more detail), and in assessing its own portfolio and acquisition opportunities for the delivery of housing development.

Overall, the local property market is something of an anomaly within the surrounding area, reflecting the mix of employment opportunities offered by the strong local economy, but also the somewhat historic area of lower value that existed in Spelthorne. The evidence demonstrates that this is now being quickly eroded, reflecting the relative lack of affordability of surrounding areas.

For Spelthorne to maintain its ability to support a strongly airport related workforce and to accommodate key workers to support local health, police, fire and rescue and other public sector services, it will have to take an active role in securing an appropriate mix of housing, both through the planning process, and as part of its asset management function.

⁵ Office for National Statistics

3.0 THE COUNCIL’S PORTFOLIO

The Council’s portfolio is made up of the following:

- Housing Development, Economic Regeneration and Strategic Portfolio:** The land and buildings owned by the Council to enable housing and economic development, and involvement in/control over strategic uses in Spelthorne (Such as the Elmsleigh Centre), to enable regeneration and to provide opportunities for development to meet the Council’s key priorities. This is considered in detail in Section 4.0
- The Investment Portfolio:** the land and buildings owned by the Council for reasons other than the delivery of services. In particular this includes properties held to generate an income, to support economic development, and to provide local housing. This is considered in detail in Section 5.0
- The Municipal Portfolio:** the land and buildings owned and/or occupied by the Council and/or its direct agents or service delivery partners for the purposes of providing services to the residents and businesses of Spelthorne. This is considered in detail in Section 6.0

The role and aspirations for Knowle Green Estates Limited are set out at section 7.0 and Governance is covered in Section 8.0.

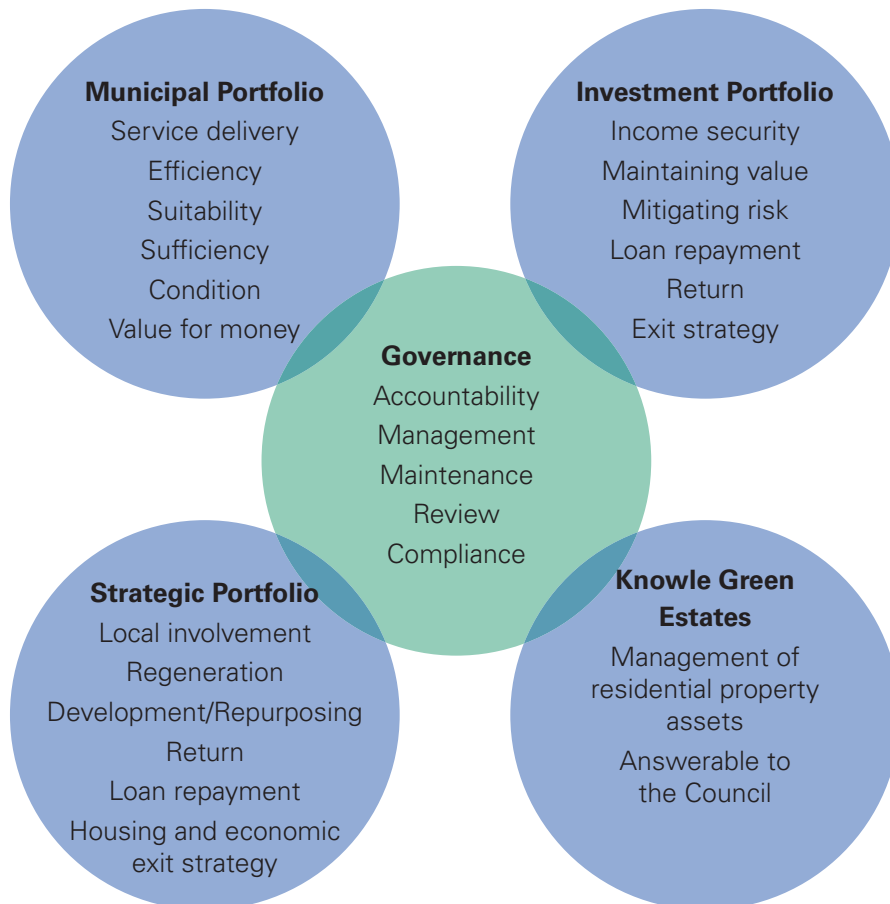


Fig 8: Portfolios, structure and governance

The Council’s overall estate comprises some 678 property assets, broadly made up as follows by number of assets:

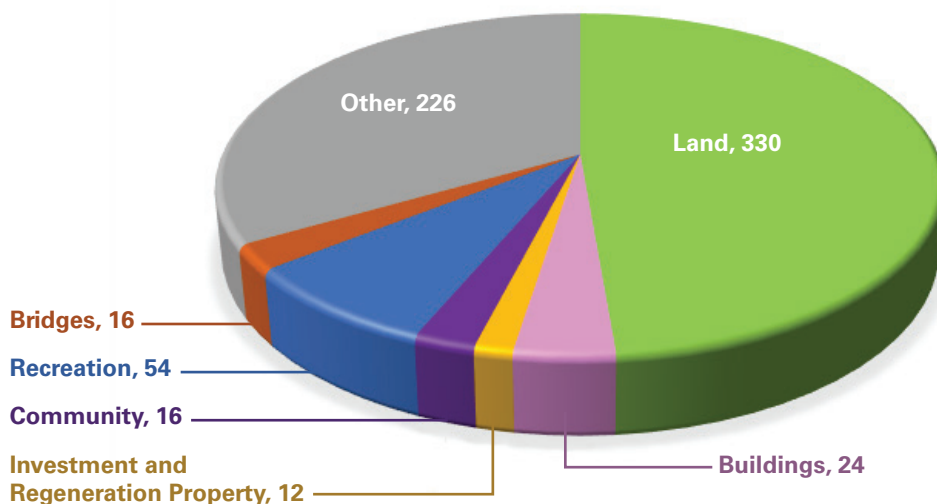


Fig 9: Assets by number

A summary breakdown of assets is included in Appendix 3. In terms of relative value, the picture is as follows:

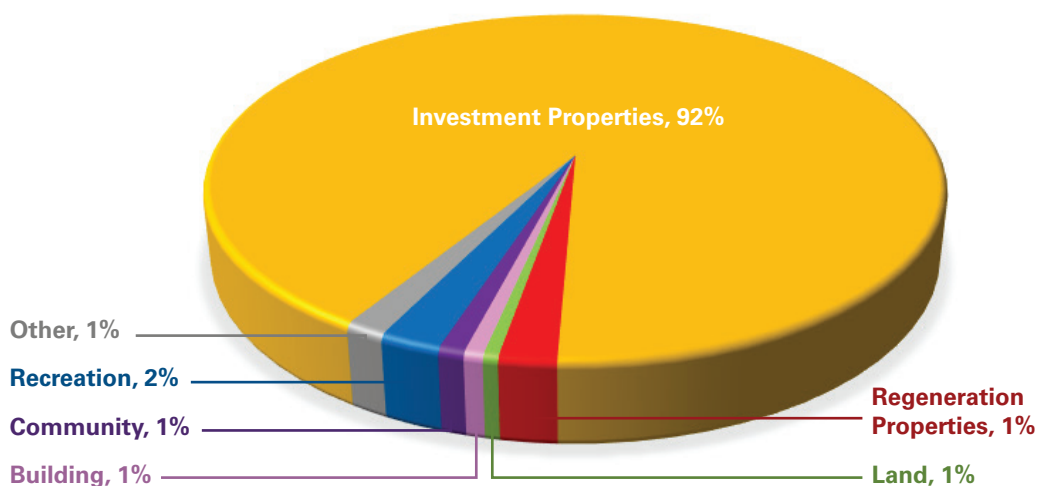


Fig 10: Assets by value

This clearly demonstrates the importance of managing risk in the investment portfolio, which forms such a significant proportion of the value of the Council’s overall asset base.

In comparison, whilst land represents the bulk of assets by number, its value is relatively low. This suggests that the best use of resources in respect of the Council’s landholdings is to review the potential for intensification of use or re-purposing to generate additional value and benefit.

4.0 HOUSING DEVELOPMENT, ECONOMIC REGENERATION & STRATEGIC PORTFOLIO

One of the Council’s key corporate objectives is the delivery of housing for its residents. The Council holds and acquires significant assets that enable housing and economic development and confer a strategic benefit, or provide the Council with direct involvement in or control of significant regeneration activities within its administrative area.

“The strategic objectives for the Housing Development, Economic Regeneration and Strategic Portfolio are that it:

- ***Enables the delivery of housing or regeneration in accordance with the Council’s key corporate objectives***
- ***Represents value for money***
- ***Does not put the Council in a position of reputational or unquantifiable financial risk.”***

Asset Management Core Principle 2

4.1 Direct development

Spelthorne’s stated priority to meet local housing needs is driven by:

- The number of households in emergency or temporary accommodation
- The size of the housing register
- Lack of housing stock
- Lack of single person hostel accommodation
- Limited private rental accommodation
- Very limited affordable accommodation
- Pressure of people relocating from central London
- The need for supporting social infrastructure

The private property market is failing to address these needs. The Council has therefore embarked on a programme of direct involvement in the development of accommodation to meet this, and other, local demand to support local people. Primarily, the focus for development is to provide sustainable residential accommodation to meet a range of tenure options.

The Council is well placed to do this, as it can borrow at a more advantageous rate than private developers, and simply needs to cover all the costs of acquisition, construction and management rather than generating a return to shareholders or profit at a level that satisfies third party funding requirements. It is therefore more viable for the Council to deliver suitable residential rental development itself than to rely on market activity. The Council is aiming to deliver at least 20% of the Council’s 5-year housing target of 3,131⁶ units in this way.

⁶ Draft Statement of Five Year Housing Supply Deliverable Housing Sites as at 1 April 2019

To this end, the Council has assessed and identified development potential in its own landholdings, which is ongoing over time, and has identified and acquired property in the borough that has development potential. The housing delivery programme to date includes:

SPELTHORNE HOUSING DEVELOPMENT PROJECTS AND PROPOSALS		
Location	Type of dwellings	No. of dwellings
Land at Churchill Way (delivered)	Houses	3
Bugle House, Shepperton (delivered)	Flats	8
Ceaser Court (phase I under construction)	Flats - phase 1	55
	Flats - phase 2	36
Harper House (under construction)	Flats	20
White House site (demolition complete and Hostel under construction)	Hostel	31
	Flats	28
Knowle Green Offices West Wing (under construction)	Flats	25
Ashford Multi Storey Car Park	Flats	50
Victory Place (Ashford Hospital car park site)	Flats	127
Thameside House	Flats	140
Oast House	Flats	Minimum 180
Total		703

Fig 11: Spelthorne Housing development projects and proposals as at March 2020

This represents some 22.7% of the Council's identified five-year housing need.

The Council is also actively progressing opportunities to meet wider commercial demand, to provide development such as industrial/warehousing units to meet the Heathrow supply chain demand and encourage local jobs; to address business needs and encourage visitor-based economy.

The Council will continue to seek opportunities for both re-use of existing assets and acquisitions of additional property/land that has potential for development/regeneration to meet its housing and economic development objectives. The criteria for acquisition include:

- Location within the Borough boundary
- Contribution to the Council's objectives
- Value for money
- Affordability
- Risk – planning, financial, physical, reputational, impact of climate change

The Council will also consider acquiring schemes built by developers where we can use it to provide S106 affordable housing, for example Block E within the Berkeley Homes development, London Road, Staines-upon-Thames.

4.2 Strategic intervention and regeneration

The strategic/regeneration assets currently held include the following:

- Communications House (on lease expiry) – Office building due for redevelopment to provide further residential accommodation
- Hanover House and Bridge Street Car Park – forming part of the proposed Waterfront Regeneration Area to provide a mixed use development (which will be delivered for the Council via a third party)
- Elmsleigh Shopping centre (part of Elmsleigh regeneration potential)
- Elmsleigh Centre Multi-Storey Car Park
- Spelthorne Museum (part of Elmsleigh Regeneration Potential)
- Staines Library (part of Elmsleigh Regeneration Potential, in partnership with Surrey County Council as occupier)
- Nos 1–6 Friends Walk (Forming part of a proposed regeneration area associated with the Elmsleigh Centre)
- 105, 119–121, and 121a High Street – held for strategic purposes and future involvement in town centre regeneration

This identifies only the commitments current as at the date of this document (March 2020). There is an ongoing programme of appropriate acquisition for development and regeneration being progressed to provide both further housing in the Borough, and to meet wider economic and regeneration aspirations.

The Council's involvement in and control of these properties ensures an active role in the regeneration of Staines-upon-Thames Town Centre, and importantly the Elmsleigh Centre, which remains critical to the retail offer in the town. Having a significant and direct stake in the town centre provides the Council with a seat at the decision-making table where regeneration proposals are concerned, rather than a purely reactive role as local planning authority. With structural changes arising in town centres across the UK in response to the modal shift from bricks and mortar retailing to on-line and mobile shopping, it is increasingly recognised that local authorities will need to play a leading role in determining how long-term sustainability (economic, social and environmental) can be maintained. This is anticipated to remain a key focus for regeneration for Spelthorne for the life of this plan.



Elmsleigh Shopping Centre, Staines-upon-Thames

The Council is also planning to develop a new Leisure Centre to provide sports pitches, swimming, sports hall, health and fitness suite, multi activity studio space, soft play, clip and climb and supporting reception, retail and café facilities and associated parking whilst ensuring its sustainability in meeting carbon targets.

5.0 THE INVESTMENT PORTFOLIO

Another of the Council’s key corporate objectives is to secure long-term financial sustainability. A key aspect of this aspiration is the generation of a sustainable revenue stream to underpin the delivery of the Council’s services and offset the upfront costs of the housing delivery programme.

This is reflected in the key priority set out in the Capital Strategy for investing in commercial property to derive revenue.

To date, the Council has acquired a range of commercial properties for primarily income generating purposes as follows:

- The BP campus at Sunbury on Thames
- Elmbrook House, Sunbury on Thames
- Summit Centre, Sunbury on Thames (investment for future regeneration)
- 3 Roundwood Avenue, Stockley Park, Uxbridge
- World Business Centre 4 at Heathrow
- An office building at Hammersmith Grove
- A portfolio of 3 offices at Uxbridge, Slough and Reading (Charter Building, Porter Building, Thames Tower)

In total the portfolio represents a very significant investment of over £1billion which generates a net income of over £10million per annum.

The value is apportioned across this portfolio as follows:

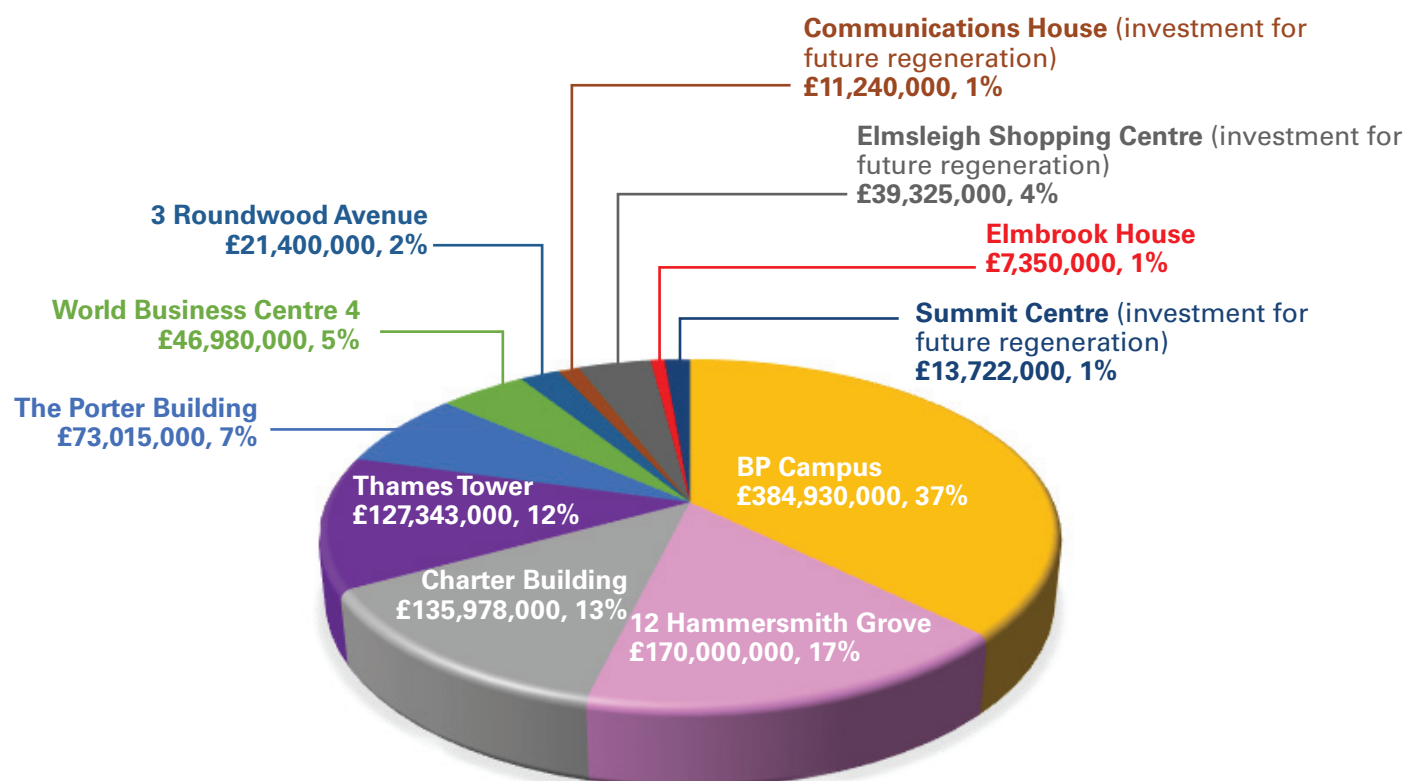


Fig 12: Investment properties by asset value

Collectively, these properties comprise the Council’s investment portfolio.

Annually these contribute approximately £10m net to the Council’s revenue budget, enabling the Council to continue to deliver services that would otherwise have to be cut, including for example such valued services as Meals on Wheels or community centres.

“The strategic objectives for the investment portfolio are that it:

- Provides a net revenue return to the Council after all costs and risks are accounted for***
- Maintains its long-term value***
- Contributes to the Council’s wider objectives and the economic and social wellbeing of Spelthorne residents***
- Does not put the Council in a position of unquantified risk”***

Asset Management Core Principle 3



World Business Centre, Heathrow

5.1 Strategy, Policy and Risk Management

The Council recognises the significance of the amount of money that has been invested in commercial property to date, and the positive impact that this is having on the Council’s overall revenue. It is also acutely aware of the need to ensure that the Council is not put at unquantifiable risk, and that the risks inherent to property investment are professionally managed, both at the acquisition stage and during the ongoing ownership of the asset.

The Council’s strategy going forward is to continue to acquire property that will generate an ongoing net income. This builds on the investments made to date but will concentrate specifically on in-borough investment that supports the local economy, and provides regenerative, environmental and social as well as financial benefits. This is articulated in the Council’s Capital Strategy.

All transactions are subject to meeting the Council’s Investment Parameters and to detailed risk assessment, due diligence and comprehensive professional scrutiny before they are recommended for action.

The parameters for investment set out at appendix 2 of the approved Capital Strategy and are summarised as follows:

SPELTHORNE BOROUGH COUNCIL: STRATEGIC PROPERTY INVESTMENT CRITERIA	
For all types of investment, the Council will pay due attention to prevailing laws, statutory regulations and Chartered Institute of Public Finance and Accountancy guidance and best practice recommendations. The Council will keep under review compliance with changing guidance.	
Investments for Revenue Generation ⁷	Reasoning
The Council will always undertake due diligence	To ensure that the Council understands the risks associated with a particular proposed acquisition and how those risks are mitigated. Preference is given to investing within the borough, or in an adjoining area that is economically important to Spelthorne (e.g. Heathrow and immediately south of Staines Bridge). Properties outside this area should represent a lower risk and higher return. Local investment ensures that the Council is best placed to know all the facts surrounding the property, its history, potential developments in the area etc. and, as the planning authority, the borough can optimize the benefits that provides. Any loss-mitigating exit strategy will benefit the residents of Spelthorne or be mitigated by higher returns.
The Council has a clear view of the asset security curve	To consider the anticipated return on investment and risk profile over time, so that performance can be measured against it
The Council has a clear exit strategy, fully costed at various critical points in the life of the investment (e.g. lease break points)	To have a fully costed plan for repayment of capital debt related to an investment, and maximising the benefit of the asset at the point that its return fails to meet required performance level
The Council does not make assumptions as to likely tenant activity (it does not attempt to second guess what a tenant may do in the future). It relies solely on the contractual obligations and plans for the worst-case scenario	To minimise risk and avoid optimism bias and to assess the impact on the Council over time of worst case risk materialising.
The Council does not make speculative investments for revenue generation purposes. Investment properties should ordinarily be complete, free from any ongoing redevelopment work and occupied by creditworthy tenants with a minimum of 10 years' lease remaining.	To avoid development risk, reduce void risk and increase income certainty over time
Any exposure to the interest rate fluctuations must be mitigated. The Council will ordinarily only borrow at fixed interest rates.	To avoid exposure to external changes in financial risk and return during the life of the investment.
Once completed (funding drawn down and purchase completed), the funding arrangements for investment should require only minimal supervision or intervention, avoiding technically complex, long term refinancing exercises (e.g. bond issues, dependence on future refinancing) or dependence on external professionals or professional, specialist knowledge from councillors or officers (who may have left the Council by the time the decision-making point arrives)	To avoid exposure to external changes in financial risk and return during the life of the investment, to minimise use of resources, and to avoid key person risk.
The Council does not invest in incomplete builds, conversions, etc unless a water tight pre-completion occupier lease is in place.	To avoid development risk, reduce void risk and increase income certainty over time
Borrowing to finance investment will only take place on a long term fixed interest rate basis	To enable better financial planning and risk projection over time
The Council will not normally invest in retail units	To mitigate the risks associated with structural changes taking place in the retail market.
The Council will not engage with sellers or tenants who may present a significant reputational risk	To avoid negative impact on the Council's local standing or reputation.
The credit rating of all incumbent tenants will be understood, recorded at the time and must be sufficiently strong for the level of investment. The Council aims for primarily "Blue Chip" covenants.	To reduce income security risk
The Council does not engage in high-risk/high-reward investments.	To protect the Council's financial position, and to demonstrate prudence in the investment of public money.
The Council does not invest in properties that have a material flood risk (1/100 years or more frequent) unless robust flood mitigation has been designed in.	To reduce physical risk to the asset, and impact on occupiers and market demand over time

⁷ The generation of income to underpin the Council's financial security

Social Investments ⁸	Reasoning
Some element of speculation may be inevitable and acceptable (e.g. building affordable housing when the housing market is subject to market pressures)	To address challenging market conditions for the benefit of Spelthorne residents.
The Council does not ordinarily invest outside the borough. Consideration will be given for investments nearby where the Council can ensure that Spelthorne residents benefit.	Social investments are designed to benefit the residents/ taxpayers of Spelthorne.
Any exposure the interest rate fluctuations must be mitigated. The Council will ordinarily only borrow at fixed interest rates.	To avoid exposure to external changes in financial risk and return during the life of the investment.
Once completed (funding drawn down and purchase completed), the funding arrangements for investment should require only minimal supervision or intervention, avoiding technically complex, long term refinancing exercises (e.g. bond issues, dependence on future refinancing) or dependence on external professionals or professional, specialist knowledge from councillors or officers (who may have left the Council by the time the decision-making point arrives). One exception to this is the ongoing operational management of rented/leased (social or affordable) accommodation and emergency housing. Where practical, these ongoing responsibilities may be transferred to Knowle Green Estates Ltd (where KGE receives services from SBC these are recharged on an appropriate and transparent basis).	To avoid exposure to external changes in financial risk and return during the life of the investment, to minimise use of resources, and to avoid key person risk.
The Council will not engage with sellers or tenants who may present a significant unmitigated reputational risk	To avoid negative impact on the Council's local standing or reputation.
The Council does not invest in properties that have a material flood risk (1/100 years or more frequent) unless robust flood mitigation has been designed in.	To reduce physical risk to the asset, and impact on occupiers and market demand over time
Social investments are not an alternative to proper funding and provision by the County Council of infrastructure and services that the County Council is required to provide. Spelthorne does not intend these social investments by the Borough Council to alleviate the financial and social responsibilities borne by the County Council.	To remain within Vires and to ensure value for money to Spelthorne residents.
In all cases the Council will structure investments to give the maximum control, financial and social benefit to itself and Spelthorne residents and priority will be given to retaining ownership and receipt of revenue	To maximise long term benefit and value for money for Spelthorne residents and taxpayers.
Strategic Investments to augment Revenue Generation or Social Investments (e.g. acquisitions to secure "marriage value")	Reasoning
Investment criteria and funding to be in accordance with the relevant purpose and criteria as set out in the categories above.	To ensure consistency of application of the criteria to all investment decisions

⁸ Investments aimed primarily at benefitting the residents and taxpayers of Spelthorne, rather than generating an income

5.2 Risk assessment

All investments, including those acquired to date and those to be considered in the future are the subject of rigorous due diligence ahead of any commitment to purchase, supported by advice from globally renowned advisers Cushman and Wakefield and Deloitte. The full process for the purchase of an investment asset is set out at Appendix 4. As part of this process risk is assessed at every stage, and then monitored as part of the ongoing management of the portfolio.

Risk assessment includes the following:

<p>Physical risk</p> <ul style="list-style-type: none"> • Environmental and contamination • Flood including future exposure due to climate change • Highways and access • Condition of Building <ul style="list-style-type: none"> » Structure » M&E • Location, Neighbouring properties and any potential or known impact • Site security 	<p>Financial risk</p> <ul style="list-style-type: none"> • Use • User and covenant strength • Rent and break opportunities • Value of building • Return on investment • Cash flow • Base case/worst-case scenario testing • Margin after liabilities are covered/ annual revenue surplus • Capital expenditure need • Borrowing terms • Development potential • Exit strategy • Stress testing against potential voids • Annual investment review provided by external property investment experts • External market factors and trends
<p>Legal risk</p> <ul style="list-style-type: none"> • Searches • Title – assessment of any restrictions • Planning constraints • Lease details and provisions <ul style="list-style-type: none"> » Insurance liability » Repairing liability » Review provisions » Break clauses • Terms of agreement for purchase • Tax implications and liabilities 	<p>Reputational risk</p> <ul style="list-style-type: none"> • Identity of occupiers and nature of business • Any adverse history • Any potential for conflict with Council's objectives • Any conflicts of interests or relevant connections • Any other considerations that might impact on the Council or its reputation in any way

Fig 13 Summary of risk assessment

The aim of the risk assessment is to fully understand the risk profile of investments so that this can be reported to Cabinet Members and considered as part of the decision-making process. Key to this is quantifying the overall financial risk in terms of investment made, value of the asset, return on investment, which is tested over the period for which loan repayments will be made, on a base case and worst-case scenario. Each risk assessment also includes an exit strategy, so that in the event of an unforeseen but significant change in the risk profile of the asset, there is a plan in place to minimise the impact on the Council. All valuations are double checked by two sets of suitably qualified experts to ensure that they are demonstrably robust and defensible.

5.3 Risk management, performance measurement and monitoring

Risk assessment is an intrinsic part of the ongoing management of the portfolio. In accordance with Treasury Management Guidance, the Council considers the balance of all its investments on the basis of security, liquidity and yield. It is recognised by central government that the priority for property investments differs from other investments, in that it is inherently lacking in liquidity, as property sales take longer than the disposal of stocks and shares, so are harder to cash in. To address this the Council seeks to model future potential liabilities and build up sinking funds to mitigate. Of more importance in considering property transactions are security, particularly of income, and yield.

The security of income is assessed through the due diligence process, and through assessing the financial strength of the occupier and the term for which they are committed to paying rent. The yield is a product of the income as a return on investment over time. This is considered by assessing the property market for the asset type and location and considering the condition and quality of the accommodation.

Compared to other forms of investment, property has specific risks, including:

- Low liquidity and flexibility
- Greater exposure to economic, cultural and technological changes
- Over/undersupply in local markets
- Physical/structural issues
- Void periods with ongoing costs and no income

The advantages of property as an asset class are:

- A reversionary interest – ownership of a tangible land/building asset at the end of the income period
- Lease arrangements which provide a binding legal contract and improve security of income
- The opportunity to negotiate more favourable terms in response to improvements in the market
- Returns on average above bank/PWLB interest rates

Fig 14: Characteristics of property as an investment

The property market also informs the liquidity of the asset, albeit incomparable to other forms of asset, as the sale of an investment property will be easier and quicker to secure in a stronger market for that asset type and will similarly be more straightforward for a high-quality asset with tenants of good covenant.

In managing the risk to the Council, it is important to assess both the individual performance of each asset, and that of the portfolio as a whole. The process for assessing and managing the ongoing risks to the investment portfolio involves the following:

An annual investment review carried out by a retained third party property investment advisor will involve the following:

1. Annual risk assessment
 - a. Income risk
 - b. Covenant risk
 - c. Occupier industry risk
2. Annual stress test – assessing the extent to which rent can be reduced across the portfolio and for each individual investment before a negative revenue position is reached
3. Ad-hoc investment reviews where specific external factors have a direct influence on risk (as advised by retained adviser)
4. Annual performance report to the Property Investment Committee
5. Review of the provision and maintenance of a robust sinking fund

Fig 15: Summary of Investment risk assessment process

This enables risk to be quantified, which is key to ensuring that the Council is aware of its liabilities over time. The elements that can be considered from a quantitative point of view are as follows:

- Asset Value compared to outstanding debt – a risk that is likely to diminish over time
- Revenue liability for loan repayment, management costs and sinking fund as a percentage of total income – for the portfolio as a whole, or for each asset
- Percentage of income that is at risk of becoming void within the next 5 years
- The percentage by which income would have to fall to reach a break-even revenue position (stress test)

This also enables targets to be set which can then inform decisions relating to the management of the portfolio.

5.4 Industry risk

The analysis of industry risk looks at the industry categories that the occupiers fall into, to see whether this is balanced or skewed towards any particular area. A skew means that the industry which represents a disproportionate percentage of the value of the portfolio will need to be more carefully monitored, and any significant economic issues that might affect that industry explored with the Council’s professional advisers.

The portfolio is currently skewed towards the oil and gas industry through the purchase of the BP headquarters estate, which at the time of writing represents over a third of the total income. This is a significant local employer and an international business, for which significant due diligence was carried out ahead of the purchase and is considered to represent an excellent occupier covenant. This is however an industry sector which will be specifically reported on as part of the annual investment monitoring report. No other industry currently exceeds 20% and only two exceed 10%: The IT/Technology industry, which includes a wide range of different businesses, and the flexible office space market.

The target is to develop the portfolio to a point where the highest percentage industry risk does not exceed the target for the stress test. This will ensure that any significant industry failure, however catastrophic, will not threaten the Council’s ability to meet its financial obligations.

5.5 Asset stress test

The asset stress test will consider the amount the rental income in a property could fall before the break-even position is reached both at face value and taking account of sinking fund balances available to offset any potential loss. This can then be compared to the income risk related to the timing of rent reviews, break clauses, ending of rental guarantees etc. If the stress test for a particular asset falls below the assessed income risk for a specific investment or the portfolio, then this would trigger a review.

5.6 Portfolio Stress test

A target can also be set for the portfolio stress test to remain at or above a specified percentage of income. It is suggested that this should be in the order of 15%, as a fall in rental income of over 10% will usually indicate some form of structural change either in the sector that the building represents (offices, warehousing, retail etc – as currently being experienced in the retail sector) or an issue with the building, such as a change affecting its location, or a need for investment from the Sinking Fund to maintain its market position.

The Development and Investment Group (DIG) will monitor performance on at least a quarterly basis, and will report on Portfolio performance to the Property and Investment Committee (PIC) at least annually and on an exception basis where anomalies in performance trigger specific action, which could include for example considering sale if the risk profile no longer conforms with the Council's Investment Parameters. More detail on DIG and PIC are set out in Section 8.0 on Governance.

An outline of the Performance Monitoring Report is provided at Appendix 5.

"A quantified annual investment performance report to the Property Investment Committee provides a summary of the outcome of each element of risk assessment supported by appropriate advice in relation to changes in performance, any areas that require further consideration, and any actions that should be taken to mitigate unacceptable risk.

The Property Investment Committee (PIC) can at any time ask to be updated on the overall portfolio risk analysis.

Significant changes to the balance of the portfolio are reported as part of the acquisition process for new investments."

Asset Management Core Principle 4

5.7 Financial prudence

Part of the management of risk is to ensure that the income received from the properties is managed in a financially prudent manner. Whilst the overall investment portfolio aims to support the local economy of Spelthorne and provide the Council with a sustainable income to underpin its revenue budget, this does not mean that all the income received from the investment portfolio can be spent on services and developments.

- The first call on income is the repayment of borrowing used to finance the purchase.
- The second call is the costs of managing the portfolio, including securing the right internal resources and external expertise as required. This will include the risk mitigation measures set out above. If the portfolio is poorly managed, or inadequately analysed, this will increase risk to the Council.
- The third call is the sinking fund. This is a proportion of the income to put aside to maintain the long-term value of the asset and to avoid impact on the Council's revenue budget in the event of future voids and rent-free periods. If the property is allowed to become obsolete in its function, or if there are works of updating required to secure the best quality lettings, then unless the appropriate ongoing investment is made the income will not be sustainable for the long term.

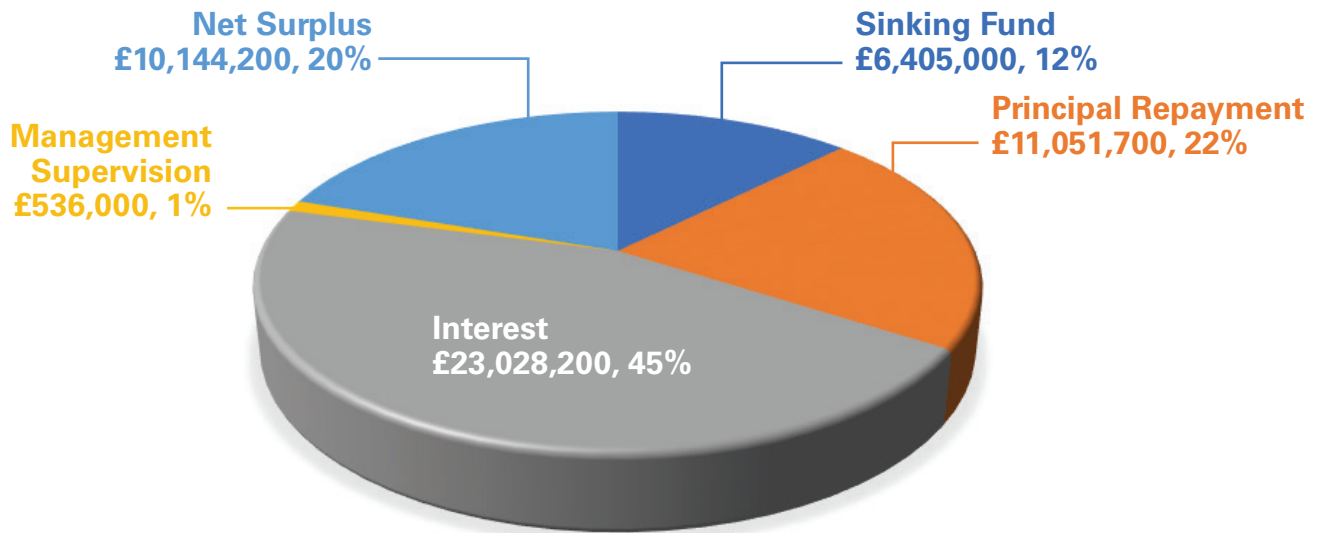


Fig 16: Division of income

To ensure sustainability, a sinking fund has been established into which a percentage of the annual income from each investment asset is saved. This money is ringfenced for use to maintain or enhance the value of the investment portfolio through future capital investment/refurbishment, and to reduce long-term risk (including covering potential future voids/rent free periods).

The sinking fund is invested in accordance with the Council’s Treasury Management requirements

- Only after the above costs have been met will surplus income be available for use as part of the Council’s annual revenue budget. The ability to generate such a surplus will have been considered as part of the assessment prior to purchase. Currently, the net return available for such use represents in the order of 20% of the total income generated. The percentage of total income contributing to the Council’s revenue account is measured by asset and by portfolio, and reported to the PIC as part of the annual performance report.

“The income from Property Investments will be used according to the following priority:

- a) Repayment of loan and interest***
- b) Management costs***
- c) Sinking fund***
- d) Surplus net income available for use as part of the Council’s annual revenue budget with particular focus on housing and regeneration in the borough”***

Asset Management Core Principle 5

5.8 Management, monitoring and Maintenance

The Investment Portfolio is managed by the Council's Asset Management team.

The principle guiding the maintenance of the Investment Properties is that wherever possible this will be passed to the occupier via a fully maintaining and insuring lease. Any liability in respect of the maintenance of common parts will be addressed through a service charge. The intention is that the costs of maintenance will not fall on the Council, other than where investment is required beyond the legal obligations on the occupier to maintain the value of the asset, or in the event of any non-recoverable default. These costs will then be met from the sinking fund.

Further detail of the specific performance measures and how these will be monitored and reported is set out at Appendix 5.

6.0 THE MUNICIPAL PORTFOLIO

6.1 Land

The municipal estate comprises some 668 property assets, the biggest category of which (some 330 by number) consist of pieces of land.

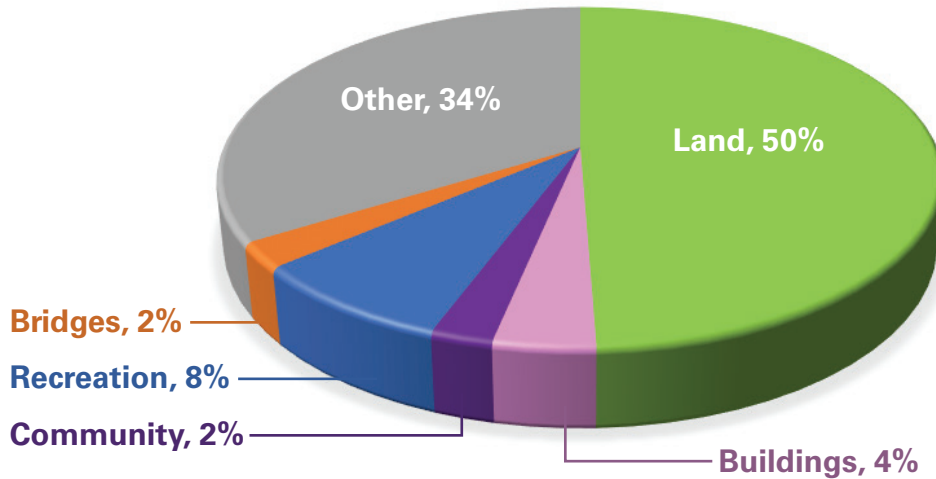


Fig 17: Municipal assets by percentage

These land holdings include public parks and gardens, playgrounds and open space, allotments, garden land, grazing land, areas of access to the river, highways land (where not owned by the County Council) and subsoil under the highway.

Largely, these pieces of land do not generate an income to the Council (with the exception of grazing land), but confer benefits to those who live and work in Spelthorne by providing valuable green spaces contributing to the health and well-being of residents and its environment. Some are of strategic value, such as where they control access to areas of development.

It is essential that the Council’s property holdings are kept under review to ensure that they provide value for money, and that where possible, minor/insignificant landholdings that confer no real benefit are considered for disposal to neighbouring landowners or the community.

More significant areas of land that do not represent value for money or confer real community/sustainability benefit are considered for their ability to contribute to the Council’s regeneration or development objectives. This process of review ensures that the Council is optimising its landholdings.



Lammas recreation ground, Staines-upon-Thames

6.2 Buildings and structures

The municipal estate also includes a wide range of buildings, structures and other assets such as memorials, portacabins, shelters, towers etc. Many of these are owned for historic reasons, and are held by the Council to ensure that they are managed for the community, others are used by the Council and its partners for the direct delivery of services.

Those which are held for local governance/community reasons include:

- Bandstand
- Boathouse
- Borehole
- Bridges
- Clock Tower
- Ice house
- Memorial bench
- Public Art
- Pump room
- Pumping Station
- Sub-stations
- Telecommunications Mast
- War Memorials
- Water Feature

Some assets, such as the Boathouse, produce a nominal income but other such as the bridges, War Memorials and pieces of public art are held for either practical or historic/community related reasons. If the Council did not care for and manage these properties, then arguably the wider benefit they confer would be lost or at risk.

Municipal buildings/assets in use include:

- The Council's offices at Knowle Green
- Bowling Greens
- Leisure centres
- Cemetery
- Car parks
- The Riverside Arts Centre
- Nursery
- Buildings used by Voluntary Organisations
- Staines Bus Station and Shelter
- Depot
- Pavilions in parks
- Community Halls and Day Centres

The vast majority of the Council's buildings and structures (97%) are owned outright by the Council as freehold interests. Some of these are leased out by the Council to third parties, often for the delivery of Council related services. The remainder of the Council's portfolio is occupied on a leasehold basis, some of which is then sublet to third parties.



The Walled Garden, Sunbury

Some of these properties are income producing, and others are owned or held to enable a service to be effectively delivered.

It is important to ensure that the municipal buildings effectively do what they are required to do and represent value for money. They therefore require review to assess whether they are:

Suitable for the use they are performing, i.e. in the right place, with the right configuration for the use suitably accessible to the public, and of a quality that reflects the service they provide and how those services may be delivered in the future;

Sufficient i.e. of a suitable size – if they are too small, this can impact negatively on the function they perform, if they are too big, they are likely to represent a disproportionate cost, and offer poor value for money; and

In appropriate condition – buildings must be compliant with all regulatory requirements, and properly maintained to meet the needs of those who work in them and who visit them, reflecting their potential future life and ensure where feasible they are made as carbon neutral as practically feasible.

Represent value for money – are cost effective compared to other options for service delivery, and in comparison to other buildings.



Spelthorne Council Offices, Knowle Green

If buildings are not suitable, sufficient or in appropriate condition, or no longer serve a useful purpose for the Council and the community, then plans are put in place to either invest in them, to address their shortfalls, replace them with something more suitable, or re-purpose those which are no longer needed or no longer fulfil their original role. If they cannot be re-purposed, then they are advertised to ascertain if there is a community organisation that could lease the building and provide additional benefit to the residents of the borough. Failing that they are considered for disposal, to save revenue costs and generate a capital receipt that can be used to deliver the Council’s priorities.

“The Council’s Strategic Objectives for its Municipal Estate are that it:

- **Positively Contributes to the delivery of the Council’s Priorities and services**
- **Is suitable, sufficient and of appropriate quality and condition**
- **Represents Value for Money**
- **Enhances the Council’s reputation**
- **Meets future carbon neutral targets”**

Asset Management Core Principle 6

Spelthorne Borough Council is part of the Surrey Homes and Properties Enterprise partnership (SHAPE) which is designed to explore and deliver opportunities to use land & buildings collaboratively. The programme has a strong governance comprising a mix of County Councillors, Council Leaders and CEOs.

The aim of SHAPE is to benefit the wider community and Council’s alike. Benefits include:

- Improvement of public services provision to residents, visitors, employees and businesses in the local area.
- Delivery of efficiency savings
- Renewal and rationalisation of the public estate to reduce the amount spent on land & buildings
- Free up much needed land for the development of housing, commercial and employment space
- Identification of opportunities to use combined assets to generate enhanced financial return.
- Support of local economic growth
- Generation of capital income and receipts

SHAPE is directly aligned with and receives funding from the Government’s One Public Estate joint initiative between the Cabinet Office, the Ministry of Housing, Communities & Local Government and the Local Government Association. The One Public Estate programme was launched in 2013 to make better use of public-sector sites, free up space for new homes and create jobs. It encourages the emergency services, local councils and government departments to work more closely together by sharing sites and creating public-sector ‘hubs’ where services are delivered in one place.

Spelthorne is committed to the One Public Estates initiative, and actively considers opportunities for joint working in assessing the potential of its property assets, as set out in the review processes. (See Appendix 6).

The Asset Management Team has overall responsibility for the following:

- Landlord and Tenant matters related to leased in and leased out properties
 - » Rent reviews
 - » Lease renewals
 - » Compliance with lease terms
 - » New leases
- Acquisitions, for local wellbeing, income generation, housing and commercial development
- Disposals
- Development Strategy and housing delivery
- Investment strategy and portfolio review
- Property review
- Compliance with legal and regulatory requirements, e.g. keeping the Asbestos Register, fire compliance, insurance, risk assessment, electrical compliance etc.
- Health and Safety
- Condition surveys
- Maintenance
- Facilities Management related directly to the buildings (Cleaning etc.)
- Valuation – Annual asset valuations, insurance valuations, ad-hoc valuation
- Maintaining the asset register and appropriate property records
- Feeding into the Corporate contract register
- Planning and Development proposals
- Addressing day to day queries and issues relating to Council owned assets
- Meeting future risks and associated with climate change and working towards carbon neutrality in its assets.

Some areas of this work are sub-contracted.

Dealings with the Council's assets are subject to a raft of specialist controls such as the laws of Landlord and Tenant, the Law of Property Act, rights and case law that impacts on how they are governed, and actions that can be taken in the event of disputes or breaches of covenant. Rights can also be created if occupation in Council buildings is allowed without putting in place the correct documentation.

There is therefore a significant risk that unless the Council's municipal property is managed consistently, and through procedures that ensure the technical property matters are fully taken into account, then situations can arise that represent a physical or financial disadvantage to the Council. For this reason, the following principle will be applied to all Council owned property:

The Council's Asset Management Team has overriding responsibility for all municipal property, and the acquisition, disposal, leasing and licensing of any space required by the Council or third parties for service delivery

Asset Management Core Principle 7

In terms of specific areas of management, the current position is as follows:

6.4 Repairs, maintenance, and compliance

These areas of management are currently governed by a Joint Procurement and Management Agreement between Runnymede Borough Council and Spelthorne Borough Council. This agreement governs the procurement of a joint service providing the following:

- Planned Maintenance
- Reactive maintenance
- Servicing contracts for systems and equipment including alarms, lifts, health and safety systems, legionella testing, CCTV, air conditioning, clocks, automatic doors and other technical /electrically operated equipment.
- Condition surveys

The contract also includes the updating and management of property records in relation to the works done, including plans, correspondence assessments and regulatory/statutory information.

The contract has been in place since 2010 and was extended and varied in 2016. The arrangement will be reviewed in 2020 before 'contract' expiry in March 2021 to establish whether this approach continues to provide value for money and an effective service.

The revised contract enables Spelthorne to prioritise the works to be done following completion of stock condition surveys, and to assess affordability. This is essential in planning future maintenance budgets and programmes in the light of property review. Such surveys are undertaken every 5 years, and the next period runs from April 2021.

The partnership approach adopted for the delivery of the repairs, maintenance and compliance service with Runnymede reflects the positive attitude to information sharing and the One Public Estate initiative.

6.5 Property review, and emerging Value for Money Maintenance Policy

To meet the stated objectives for its municipal estate, the Council is committed to undertaking a comprehensive review of its entire municipal property estate over the next 3 years. Review has been an ongoing process, as evidenced by decisions such as bringing the Grounds Maintenance works back in house, to reduce the costs of managing the Council's landholdings, and periodic reviews of car parking and charging regimes. In developing this Asset Management Plan it has however been recognised that ongoing financial constraints will require a more rigorous and comprehensive approach to assessing whether the Council's land and building assets are working for the local electorate, and that money is being prioritised wisely.

Review procedures to be implemented in conjunction with service representatives and Root and Branch (efficiency review team) have therefore been revised to enable the Council's occupied municipal properties to be categorised. More detailed processes are set out at Appendix 6, and are initially aimed at buildings, with a separate process for land and items of infrastructure.

The key issues to identify are whether the service is needed for the long term, the suitability of the building/ location for the delivery of the service and whether the property occupied represents or could represent value for money.

The service assessment and suitability will be carried out by the Asset Management team in conjunction with the relevant service representatives and service planning processes, and is to some extent subjective, based on the knowledge of those using the building. The financial analysis is carried out by the Asset Management Team in liaison with Finance, and will be based on data relating to the portfolio to enable a comparison to be made between buildings.

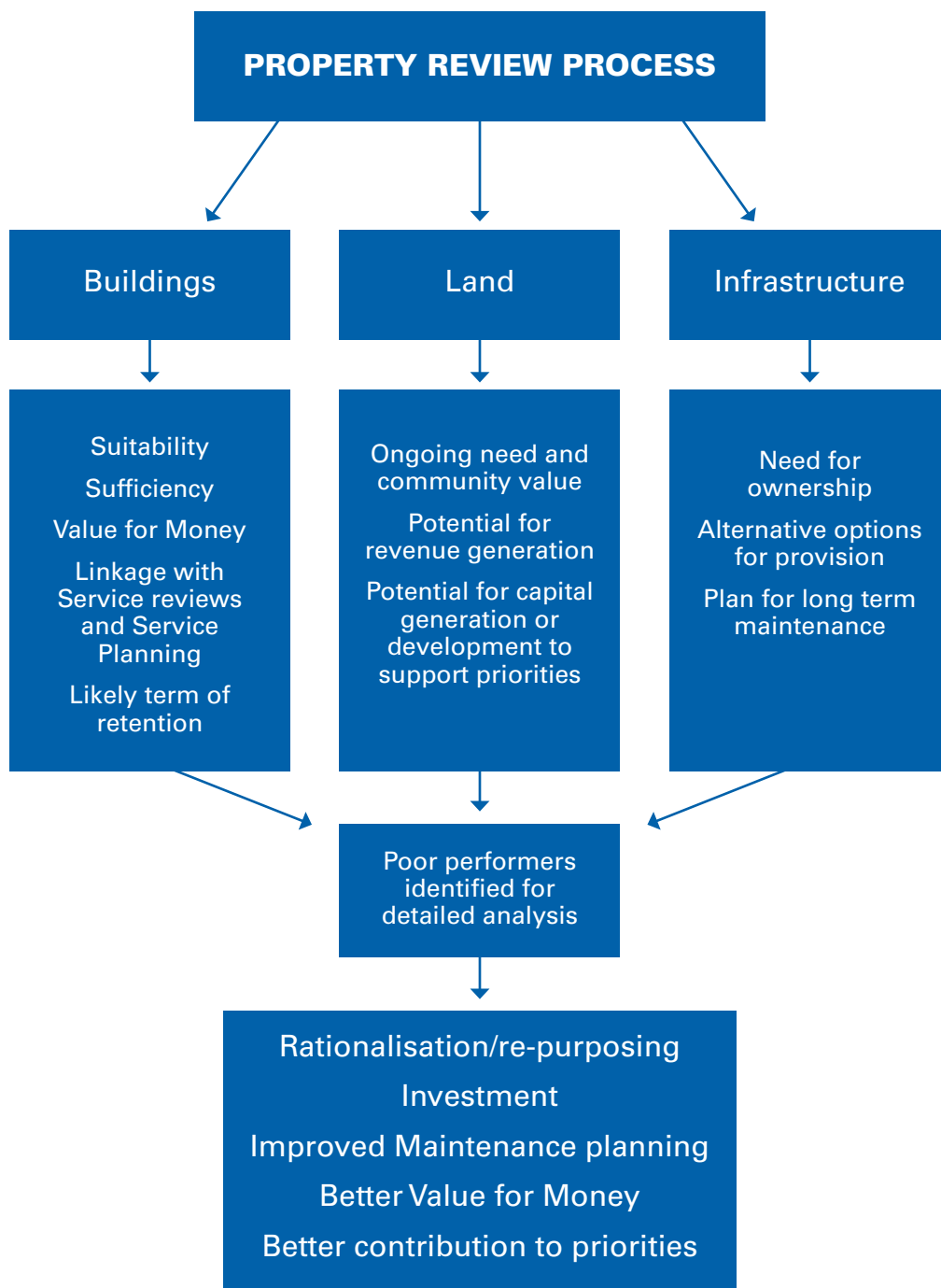


Fig 18: Asset Review Process

This then identifies the poorer performers for more detailed exploration and allows actions to be prioritised to address identified physical and financial shortcomings in the estate. This simple approach means that the greatest effort is put into addressing the needs of the poorer performers, thus securing the most effective change early on and leading to a process of continuous improvement.

Where poor performers are identified through property review, the actions to be taken are:

- Investing in the building to address the issues
- Securing an alternative location for the delivery of the service
 - » Retention for regeneration or strategic purposes
 - » Re-purposing vacated buildings to address corporate priorities (including consideration of community uses); or
 - » Disposal if re-purposing is not feasible or does not represent value for money

A large proportion of the Council's property is made up of land (just under 49% by number). The review process for land will differ from that for buildings. The aim of this is to ensure that any development potential within the Council's landholdings is identified, and that priority can be given to maximising the benefit of this in those cases most likely to generate added value.

With regard to very minor areas of amenity land, such as those on housing estates that were not transferred with the housing stock, it is proposed that in principle, the Council will look favourably on the disposal of these to neighbouring householders where there would be no loss of community value, and no detriment to the Council. The aim is to maximise the savings in terms of management and maintenance cost, risk and administration for areas that make no meaningful contribution to the Council's priorities.

The key asset management principles for the review of the Council's municipal land and buildings are summarised below

“The Council’s municipal land and buildings will be reviewed every 3 years to drive improvements in suitability and sufficiency, and to ensure that where no longer required for their existing use, action is taken to maximise the contribution they make to the Council’s corporate priorities.”

Asset Management Core Principle 8

The process of Property Review also enables future property maintenance to be managed in a way that maximises value for money. By assessing the ongoing service need for each building in terms of likely future useful life, it is possible to budget for maintenance that reflects the ongoing municipal value of the asset to the Council.

Where properties are only likely to be needed for the short term, then it would not represent value for money to undertake major works of refurbishment. However, where an asset is likely to remain in long term operational use, then a full maintenance programme and periodic refurbishment plans will secure suitability for the longer term. Any proposals for capital spend are fed into the Council's Capital Programme and Capital Strategy.

As part of the property review process, it is proposed that budgeting for repairs and maintenance, and the delivery of works will be managed on a “Value for Money” basis:

“The Council will maintain its Municipal Property on a Value for Money basis that reflects its anticipated ongoing service life.”

Asset Management Core Principle 9

Spelthorne Borough Council		
Value for Money Maintenance Policy – Operational Property		
Maintenance Standard	Definition	Property anticipated useful life to the authority
Gold standard	Full Planned maintenance programme to address all wants of repair, meet service need and improve service delivery, and maintain the value of the asset	16+ years, and/or where Council has legal obligations to maintain to a good standard
Silver standard	Essential repairs, and desirable repairs where these have a direct impact on service delivery or the reputation of the authority. Reduced preventative maintenance for the longer term unless it is covered by an evidenced increase in value of the asset.	8–15 years
Bronze standard	Essential repairs and Health and Safety/statutory requirements only. Presumption against desirable repairs and long term preventative maintenance, except where these have a direct immediate impact on service delivery or the reputation of the authority.	0–7 years,
Value for Money Maintenance Policy – Other Property		
Commercial Property	Maintenance liability should wherever possible be passed to the occupier, and obligations actively enforced. Where direct maintenance is required, this should be to a standard to maximise value for money.	
Community Property	Wherever possible maintenance liability should be transferred as part of Community Asset Transfer. If retained, then the property is categorised as for Operational Property above, and the appropriate standard applied.	
Strategic Property	As this is intended for short term strategic intervention the Bronze Standard of maintenance will be applied	

Fig 19: Value for Money maintenance policy

Since 2017/18 the Planned Maintenance Budget provision has been increased by £750,000 with a further £250,000 planned from 2021/22. This supports the shift from a reactive to planned maintenance approach.

6.6 Performance measurement and monitoring (Municipal Estate)

Measuring the performance of the municipal portfolio is directly linked to the property review process.

In terms of service related buildings, the initial measure is to identify the percentage of buildings by number and floorspace identified as no longer suitable or sufficient for ongoing service delivery. The actions required to address the lack of suitability, or to rehouse the service and repurpose the building will then be added to the Asset Management Action/Delivery Plan, and progress on these projects monitored through usual project management protocols.

For those identified as suitable and sufficient for ongoing service use, performance will be measured through a comparison of operational costs per m². This will be measurable on a building by building basis once the new property information management system is in place and fully functional. This will enable targets to be set for securing value for money in ongoing building operation, and for operational costs to be taken into account in future reviews.

The first performance measure will be the average annual running cost per m², which can then be compared year on year to assess whether there is improvement, or identify what has impacted on it (such as external energy costs).

The second measure will be the percentage by floorspace of the service accommodation that falls over 10% above the average running costs per square metre. This will identify the poorest performers, and enable actions to be identified to address poor performance, or for this to be highlighted a part of later specific building review processes to inform decision making.

An annual report will be provided to PIC who will refer the final report to Cabinet. The report will set out the following:

- % of buildings/floorspace considered unsuitable
- Comparison with previous year
- Actions identified for these buildings and priority/timescale for delivery
- Update on actions identified in previous year and outcomes
- Average operational costs per m² for remaining municipal buildings
- Comparison with previous year
- % by floorspace and identification of buildings exceeding 10% over the average operational cost
- Actions identified to improve the relative cost of poor performers
- Update on actions identified in previous year and outcomes

The aim of these simple performance measures and monitoring regime is to put in place a useful process that informs decision making, budget prioritisation, and leads to continuous improvement over time.

7.0 KNOWLE GREEN ESTATES

Knowle Green Estates Group Ltd (KGE) is a limited company wholly owned by Spelthorne Borough Council. It was established in May 2016 as a vehicle for the delivery of emergency accommodation at Harper House. Since then it has developed as a vehicle for the Council to own and let residential accommodation. The Company is a key component in the delivery of the Council’s Housing Strategy.

The potential long term role of KGE in managing risks associated with the occupation of Council owned residential property, is subject to ongoing review. The aim is to maximise the value and benefit to the Council of having a separate company, and to minimise risk and reputational exposure.

The funding strategy for KGE is to borrow from its parent (SBC) at competitive rates and with diminished or no developers profit as part of its activities. The resulting benefit of this approach is to enable KGE to own and rent residential property on a long term basis for a variety of tenures including key worker accommodation, affordable housing as well as open market rents.

The Council, as sole owner of the company, will directly benefit from any surplus income or savings generated by KGE which is not reinvested in the Company. Currently the main cashflows from the company to the Council are:

- Payment of interest on loans
- Repayment of principal on loans
- Recharges for services provided by Council to the Company

The main way transfer of surplus from Company to Council takes place is on the interest margin the Council earns on private rental units which the company pays a market rate finance cost on.

In terms of Governance, KGE currently comprises the following:

- Director: Deputy Chief Executive and Chief Finance Officer (Section 151 Officer) for Spelthorne Council

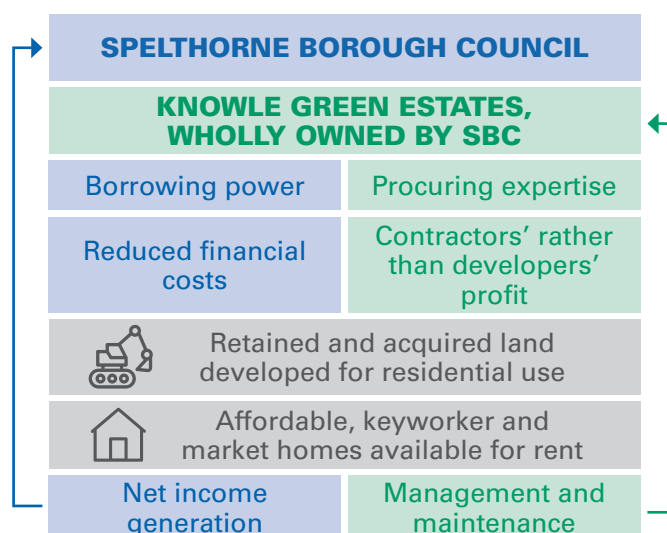
- Director: Councillor Olivia Rybinski
- 2 Non-executive Director [one post vacant]
- Company Secretary

The Company is controlled by and is directly accountable to the Council as its shareholder. The shareholder will also sign off the Annual Strategy for its operation, and a rolling 5-year business plan which will be reviewed on an annual basis.

Using services delivered by the Asset Management Team, KGE will manage the residential property portfolio (with the exception of the White Hostel and Harper House which are owned by SBC). The extent of any future growth in its areas of responsibility will be determined through the Council’s strategy, and the development of a business plan with KGE’s directors.

The growth of Knowle Green Estate as an operating property management entity is a key priority over the life of this plan.

It is not the intention to build and sell residential developments but rather to keep all developments and maintain a residential portfolio under the Knowle Green Estates banner. Over time this will produce revenue for the borough in the long term. It will also facilitate the provision of a significant number of affordable and key worker homes in perpetuity.



8.0 GOVERNANCE

8.1 Governance of Development and Strategic portfolio

Housing schemes (with the exception of single person homeless and temporary accommodation for families) will be held and managed by Knowle Green Estates, the Council's wholly owned property management company. More details of this are set out at section 7.0.

In terms of governance, all direct developments and potential sites for acquisition are reported to DIG and are the subject of bi-weekly project monitoring reports. An example of the project monitoring report format is provided at Appendix 7.

The bi-weekly monitoring report sets out a summary of the proposed development and its financial profile, including income and cost projections, costs to date, anticipated gross and net return on investment, Progress against milestones, issues and risks including climate change, together with mitigation measures, and reports on Health and safety matters. This ensures that developments are kept to time and budget as far as is possible and enables appropriate action to be taken in a timely manner. This is key to the efficient delivery of the development outcomes and is in accordance with best practice.

Progress against all developments is reported to the Property and Investment Committee (PIC) at least annually, and then summarised to Cabinet.

8.2 Governance of the Investment Portfolio

All investment acquisitions are initially considered by the DIG. This reports to the PIC which authorises the DIG to make offers for property, and if terms are agreed on a basis that is acceptable to DIG, this is then referred up to Cabinet for final approval before the transaction takes place.

The management of the Investment Portfolio is carried out by the Council's Asset Management Team with specialist input and support as required from external investment advisers. This team is answerable to the Council's Management team, and the Council as a whole.

An independently supported and accountable approach to the governance of the Investment Portfolio is intended to ensure that robust professional advice is taken on the commercial aspects and risk profile of the investment portfolio. This ensures that risk is managed in the way that would be applied to any major pension fund or property investment company. The commercial advice reported to the Council is always impartial and transparent, enabling this to then be and considered by Council Members in the wider context of its administrative role.

8.3 Governance of the Municipal Portfolio and role of the Asset Management Team

The Municipal Portfolio is used by many areas of the Council, but its management and governance is the responsibility of the Asset Management Team. This team is made up of staff with property expertise and experience who are suitably qualified to protect the Council's interest in all property dealings and transactions.

The Asset Management Team effectively represents the Council's "Corporate Landlord". The team works closely with other officers and partners of the Council to ensure that the views and needs of those who use and occupy the buildings, and who deliver services from them are understood, and considered in any review and decision-making processes.

The Asset Management Team works closely with Finance, who ultimately manage the income received from the Council's portfolio, and the setting of budgets for their management and maintenance, and with the Council's Legal Team who put in place the documentation needed to control how the buildings are used and occupied, such as leases, licence agreements, wayleaves, easements and property contracts and transfers on disposal or acquisition.

9.0 PROPERTY INFORMATION MANAGEMENT

Key to the management of all the Council's assets is the collection and management of accurate and reliable data. Historically, the Council's asset register has been held electronically in the form of an excel spreadsheet, with supporting detail held in individual asset files.

With the acquisition of a significant investment portfolio, and increased focus on the need to ensure that the management of all income producing property maximises benefit to the Council it has been recognised that there is a need for a comprehensive Property Management database, linked to mapping via a Geographical Information System.

The Council has procured such a system, and is currently moving into the implementation phase. The system (once operational) will be accessible both to KGE and the Council's in-house asset management function.

The establishment of the new system will enable all asset related data held to be validated as part of the process of information population, and will provide a robust and reliable platform from which property reviews can be undertaken and the related annual performance measurement and monitoring reports prepared.

The property management system will incorporate a database of residential assets covering tenancy related matters, such as:

- antisocial behavioural issues
- rent collection
- void management
- statutory compliance
- contract management
- building maintenance and repairs
- lettings management
- health and safety allocations

This will enable efficient property management, providing the opportunity for appropriate key performance indicators to be set and to form the basis for regular reporting.

10.0 ACTION PLAN AND RESOURCING

To deliver the objectives set out in this plan requires a range of actions to be taken. The action plan below identifies in summary the work to be done and timescales for delivery and reporting. Each action represents a project in its own right, which will have separate more detailed governance arrangements and resourcing plans but all should also take account of sustainability objectives and ensure they meet climate change objectives of carbon neutrality by 2050. To achieve this goal needs planning and implementation of mitigation measures to start from 2020.

To deliver this scale of work, and to continue to grow the investment portfolio and direct development activity will require a properly resourced team representing a range of skills, supported by external specialist advice. An indicative resourcing overview setting out the anticipated immediate skills requirement is provided at Appendix 8.

SPELTHORNE BOROUGH COUNCIL ASSET MANAGEMENT PLAN 2019-2024				ACTION PLAN
Area of work	Action	Objectives/outcomes	Timetable	Reporting
Management of AMP processes	Formalise the role of KGE Ltd.	Development of independent company to maximise benefit to Spelthorne Reduce and actively manage risk Demonstrate value for money Maximise financial return to the Council Develop beneficial commercial relationships Secure sustainable supply of housing	2020	To Project Sponsors Board, and update to Cabinet as required
	Continue to develop an appropriately resourced Asset Management Skills team	To support ongoing acquisitions and development programme and to enable property review processes to continue To provide ongoing immediate expertise and support to the Council on property related issues To reduce risk	2020 and ongoing	Reporting to Portfolio Holder as required, at least quarterly
	Review of maintenance and compliance delivery procedures, including contract with Runnymede	To ensure value for money To ensure effectiveness and efficiency To reduce risk	2020 (before partnership contract expiry)	Reporting to Portfolio Holder as required. (See above)
	Populate and validate new Property Management Information System	Support property management and review processes Validate and update data Enable analysis Reduce risk	2020	Reporting to Portfolio Holder as required, at least quarterly

Fig 20: Action plan for AMP development

SPELTHORNE BOROUGH COUNCIL ASSET MANAGEMENT PLAN 2019-2024				ACTION PLAN
Area of work	Action	Objectives/outcomes	Timetable	Reporting
Management and consolidation of Investment Portfolio	Establish annual and ad hoc investment market and industry sector review arrangements with external advisers	To feed into monitoring arrangements and annual reporting To actively manage risk	2020	Quarterly reporting to PIC and annual reporting to Cabinet
	Establish stress test, income risk, occupier risk and covenant risk processes to inform quarterly reporting to PIC and annual reporting to Cabinet	To actively manage risk	2020	
	Initiate annual reporting process and formally adopt appropriate pro-forma	To actively manage and monitor performance and risk To inform decision making	2020	
	Review Sinking Fund arrangements against anticipate lifecycle costs of each investment, and establish proportion of income to be set aside. Review total sinking fund position and current investment and management arrangements	To mitigate future risk and make adequate provision for maintaining the value of the on-operational portfolio To maximise financial benefit of fund to the Council and support adequate resourcing	2020	
	Progress investment acquisitions programme	Generate additional secure revenue, contributing to securing financial sustainability, and to secure economic, environmental and social wellbeing of residents	Ongoing for the life of the plan	

Fig 21: Action plan for Investment Portfolio

SPELTHORNE BOROUGH COUNCIL ASSET MANAGEMENT PLAN 2019-2024				ACTION PLAN
Area of work	Action	Objectives/outcomes	Timetable	Reporting
Management of the municipal portfolio	Assess suitability and sufficiency of operational buildings in accordance with review procedures	To enable planning to better meet the needs of service delivery To assess comparative performance of existing portfolio To inform maintenance budgeting and application of Value for Money Maintenance prioritisation	Once new PMI system has been fully populated and become operational and then at least every three years	In accordance with AMP. Annual performance report for operational estate once initial reviews completed.
	Asses financial performance in accordance with review procedures	To ensure value for money and enable planning of mitigation measures or investment required to reduce running costs		
	Establish reporting protocols for outcomes of review processes	To enable effective monitoring and reporting, and to secure support for any proposed changes or projects arising from review processes		
	Develop a Community Asset Policy based on a balanced score card	To maximise the opportunity for community organisations that directly benefit the borough to lease assets which are surplus to operational requirements	2020	Annually on decisions made basis
	Complete specific review of Council owned car parks	To identify opportunities for maximising value and reducing cost/liability to the Council and for contribution to the delivery of key priorities	2020	In accordance with existing project management arrangements
	Review land holdings and develop action plan based on outcomes	To identify opportunities for maximising value and reducing cost/liability to the Council and for contribution to the delivery of key priorities	By end 2022	In accordance with AMP. Annual performance report for operational estate once initial reviews completed.
	Review infrastructure assets held by the Council in accordance with AMP	To identify opportunities for maximising value and reducing cost/liability to the Council and for contribution to the delivery of key priorities and mitigation of risks associated with climate change	By end 2023	In accordance with AMP. Annual performance report for operational estate once initial reviews completed.

Fig 22: Action Plan for Municipal Portfolio

SPELTHORNE BOROUGH COUNCIL ASSET MANAGEMENT PLAN 2019-2024				ACTION PLAN
Area of work	Action	Objectives/outcomes	Timetable	Reporting
Regeneration/ development projects	Progress development/ regeneration acquisitions programme	Meet Housing and Economic Development objectives, generate additional secure revenue, contributing to securing financial sustainability, to secure economic and social wellbeing of residents and meet climate change targets	Ongoing for the life of the plan	In accordance with reporting processes and investment criteria set out in AMP
	Knowle Green Rationalisation and repurposing (project Lima)	Reduce operational running and occupancy costs/liabilities Enable further development through re-purposing/redevelopment of parts of the site Support Housing objectives Generate additional revenue, contributing to securing financial sustainability	Ongoing during life of AMP	In accordance with existing project management and development reporting arrangements
	Fordbridge extension to the day centre	To support Health and Wellbeing of local residents	2020	
	Ashford MSCP	Redevelopment to provide PRS housing accommodation Generate additional revenue, contributing to securing financial sustainability Support Housing and economic development objectives	2020/21	
	Ceaser Court, formerly Benwell House	Complete redevelopment to provide 91 units to support housing objectives Generate additional revenue, contributing to securing financial sustainability	Phase 1: 2020/21 Phase 2: 2021/22	
	Waterfront Development Opportunity	Complete JV with preferred delivery partner To enable planning and delivery to be progressed by JV partner Generate additional revenue, contributing to securing financial sustainability Support Housing and economic and environmental development objectives	2020/21	
	White House site (single persons homeless hostel)	Deliver 27 beds to support housing objectives Develop project delivery plan for implementation Generate additional revenue, contributing to securing financial sustainability Support Housing and economic development objectives	2020/21	
	Laleham Park Pavilion	Progress planning for redevelopment to provide toilets and catering concession Develop project delivery plan for implementation Generate additional revenue, contributing to securing financial sustainability	2020/21	
	Harper House (emergency accommodation)	Deliver 20 residential units to support housing objectives Generate additional revenue, contributing to securing financial stability To support Health and Wellbeing of local residents	2020/2021	

Area of work	Action	Objectives/outcomes	Timetable	Reporting
Regeneration/ development projects	Spelthorne Leisure Centre	Delivery of new Leisure Centre Health and Wellbeing of local residents	2021/22	In accordance with existing project management and development reporting arrangements
	Thameside House	Progress planning to enable work to start on delivery phase Deliver 140 residential units to support housing objectives Generate additional revenue, contributing to securing financial stability	2021 – 2023	
	Victory Place (Ashford Hospital car park)	Deliver 115 residential units to support housing objectives Generate additional revenue, contributing to securing financial stability	2021 – 2023	
	The Oast House	Progress planning to enable work to start on delivery phase Deliver residential units to support housing objectives Generate additional revenue, contributing to securing financial stability	2021 – 2023	

Fig 23: Action plan for Regeneration and Development

APPENDICES

Appendix 1 – Summary of Council Services

Planning	Rubbish and recycling	Building control
Council tax	Housing	Jobs and careers
Housing benefit	Leisure and parks	Community, health and education
Environmental health	Parking, travel and roads	Sustainability
Licences and permits	Land and property	Business advice and support
Markets and farmers' markets	Food safety	Doing business with the council
Health and safety	Staines-upon-Thames – The Destination	Council tax support
Supporting families	Economic development	Grants

Appendix 2 – Analysis of growth in rental values over the last 5 years, and comparison with adjacent boroughs:

Average rental values		Room				Comparison with adjacent boroughs		
Year	Spelthorne	Runnymede	Hillingdon	Hounslow	Richmond	Elmbridge	England	
2013/14	525	430	401	600	590	450	338	
2014/15	No data	450	500	587	595	600	350	
2015/16	598	500	450	575	575	600	368	
2016/17	550	550	550	650	661	550	377	
2017/18	638	385	600	638	No data	No data	390	
% increase in 5 years	22%	-10%	50%	6%	12%	22%	15%	

Average rental values		Studio				Comparison with adjacent boroughs		
Year	Spelthorne	Runnymede	Hillingdon	Hounslow	Richmond	Elmbridge	England	
2013/14	650	595	600	700	850	673	475	
2014/15	700	645	690	750	900	730	500	
2015/16	725	725	700	850	950	695	570	
2016/17	725	725	750	835	900	738	550	
2017/18	750	715	795	867	995	750	575	
% increase in 5 years	15%	20%	33%	24%	17%	11%	21%	

Average rental values		1 bed				Comparison with adjacent boroughs		
Year	Spelthorne	Runnymede	Hillingdon	Hounslow	Richmond	Elmbridge	England	
2013/14	800	800	795	1000	1125	848	500	
2014/15	875	895	900	1101	1225	875	540	
2015/16	895	895	900	1295	1250	900	575	
2016/17	900	900	1000	1100	1150	900	595	
2017/18	925	895	1000	1100	1250	900	600	
% increase in 5 years	16%	12%	26%	10%	11%	6%	20%	

Average rental values		2 bed				Comparison with adjacent boroughs		
Year	Spelthorne	Runnymede	Hillingdon	Hounslow	Richmond	Elmbridge	England	
2013/14	1000	1000	1090	1250	1495	1100	575	
2014/15	1150	1198	1200	1350	1550	1150	595	
2015/16	1150	1195	1200	1488	1550	1195	625	
2016/17	1150	1200	1250	1350	1495	1225	650	
2017/18	1195	1195	1250	1250	1595	1200	650	
% increase in 5 years	20%	20%	15%	0%	7%	9%	13%	

Average rental values		3 bed				Comparison with adjacent boroughs		
Year	Spelthorne	Runnymede	Hillingdon	Hounslow	Richmond	Elmbridge	England	
2013/14	1225	1200	1250	1500	2000	1450	650	
2014/15	1300	1400	1450	1584	2200	1480	695	
2015/16	1363	1400	1400	1650	2095	1500	715	
2016/17	1356	1425	1495	1595	1850	1500	750	
2017/18	1350	1413	1450	1500	2100	1500	750	
% increase in 5 years	10%	18%	16%	0%	5%	3%	15%	

Average rental values		4 + bed				Comparison with adjacent boroughs		
Year	Spelthorne	Runnymede	Hillingdon	Hounslow	Richmond	Elmbridge	England	
2013/14	1750	1885	1700	2300	3400	3150	1100	
2014/15	1800	1942	2000	2708	3798	3100	1200	
2015/16	1695	1950	1800	2125	3300	3600	1275	
2016/17	1698	2000	1950	2000	3000	3000	1300	
2017/18	1700	1895	1900	1850	3500	3600	1320	
% increase in 5 years	-3%	1%	12%	-20%	3%	14%	20%	

Average weekly earnings	Spelthorne	Runnymede	Hillingdon	Hounslow	Richmond	Elmbridge
April 208	607.5	682.9	613.6	693.8	611.5	693.8
1 bed multiplier	1.52	1.31	1.63	1.59	2.04	1.30
2 bed multiplier	1.97	1.75	2.04	1.80	2.61	1.73

Source: ONS Median Private rents and average weekly earnings statistics

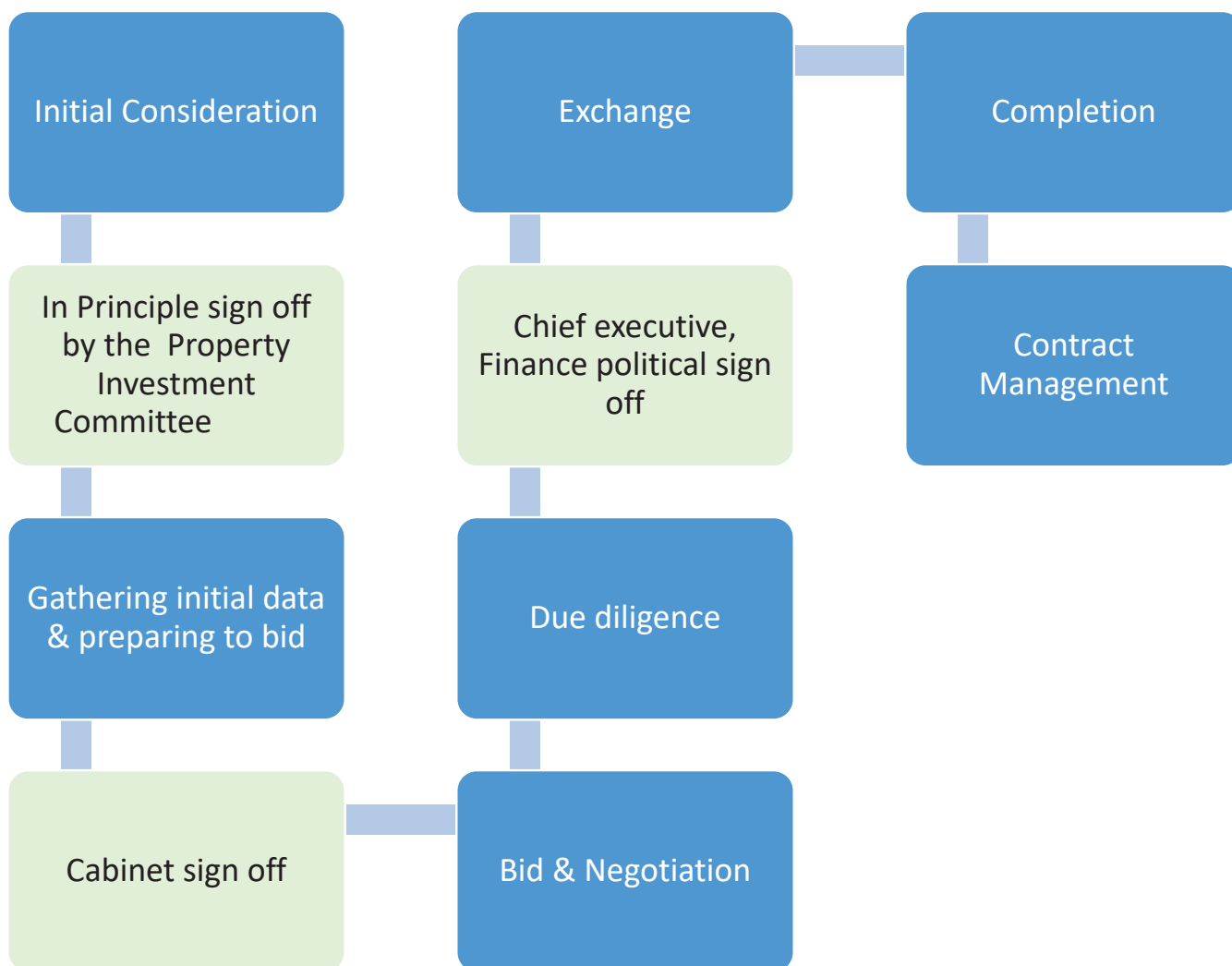
Appendix 3 – Summary analysis of portfolio

Asset Type	Number
Advertising Hoarding	9
Allotment	16
Arts Centre	1
Back Garden	9
Bandstand	2
Basketball Area	1
Bathing Station	1
Boathouse	4
Borehole	1
Bowling Green	5
Bridge	16
Building-Commercial	12
Building-Office	2
Building-Vacant	1
Bus Shelter	1
Bus Station	1
Café	3
Campsite	1
Car Park	54
Car Parking Spaces	9
Car Wash	1
Cemetery	4
Changing Rooms	4
Chapel	3
Clock Tower	4
Closed Church Yard	5
Clubhouse	4
Common Land	3
Community	1
Community Centre	5
Community Hall	6
Demolished	1
Depot	1
Development	3
Football Grassed Area	5
Games Area	5
Garage	5
Golf Course	1
Greenhouse	1
Highway Subsoil	2
Ice House	1
Investment Property	4
Investments	8
Kiosk	3
Land	8
Land-Access	6
Land-Access to River	1
Land-Amenity	124
Land-Garden	1
Land-Grazing	6
Land-Highway	44
Land-Highway Subsoil	21
Landing Stage	3
Land-part of park	1
Land-Vacant	2

Leisure Centre	2
Linear Park	1
Memorial Bench	1
Museum	1
Nursery	2
Office	2
Offices	2
Open Space	18
Outside Gym	1
Pavilion	11
Plant Nursery	1
Plant Room	1
Playground	31
Playgroup	1
Portacabin	1
Private Road	1
Public Art	15
Public Conveniences	14
Public Gardens	7
Public Park	33
Public Park-part of	3
Public Shelter	2
Pump Room	1
Pumping Station	1
Railway	1
Redevelopment	1
Residential Flat	3
Residential House	2
Resource Centre	1
Service Yard	6
Skate Park	6
Sports Ground	2
Storage Building	4
Storeroom	1
Structures	2
Sub Station	12
Telecommunications Mast	1
Tennis Courts	8
Towpath	6
Underground Structure	1
Vacant	1
Voluntary Organisation	8
Walled Garden	1
War Memorial	6
Water Feature	4
Workshop	2

Asset Type	Number
Land	330
Buildings	24
Investment Property	12
Community	16
Recreation	54
Bridges	16
Other	226
	678

Appendix 4 – Acquisition Process



Appendix 5 – Performance Monitoring Report for Investment Portfolio

Spelthorne Borough Council
 Annual Investment Monitoring Report pro-forma
 Commercially sensitive information – not for publication

Date:

1 Headline analysis, age profile and stress test:

Individual asset performance											
Reference number	Year of acquisition	Asset identification	Current capital value £	Gross income £	Gross return %	% of income contributing to revenue account	Capital debt as a % of Capital Value	Asset stress test (% of income loss to break even)	Comparison with portfolio stress test target	Asset stress test (% of income loss to break even) taking into account sinking fund.	Comparison with portfolio stress test target
Portfolio performance			Current capital value £	Gross income £	Gross return %	% of income contributing to revenue account	Capital debt as a % of Capital Value	Portfolio stress test (% of income loss to break even)	Portfolio stress test target		Portfolio stress test target
Commentary											

2 Annual independent investment review and market advice:

- **Key highlights:**
 - » Market commentary
 - » Prospects for growth
 - » Comparison with pension fund performance/other market comparators
 - » Recommendations

- **Issues for Spelthorne**

3 Risk Assessment outcomes:

- **Income risk**
- **Covenant risk**
- **Occupier industry risk**

Analysis and implications for Spelthorne:

4 Sinking fund review:

- **Total value £**
- **Summary of annual expenditure**
- **Significant building/structural/condition/maintenance issues anticipated for the next 12 months**
- **Service charges and related issues**

5 Annual Management Review:

- **Significant Occupier changes**
- **Percentage of voids by income**
 - » Comparison with previous years
 - » Commentary
- **Percentage of voids by floorspace**
 - » Comparison with previous years
 - » Commentary
- **Percentage of floorspace let**
 - » Comparison with previous years
 - » Commentary
- **Percentage of floorspace subject to rental guarantees**
 - » Comparison with previous years
 - » Commentary
- **Percentage of floorspace subject to rental guarantees due to expire within 18 months**
 - » Commentary and actions to be taken
- **Summary of rent review activity**
 - » Value trends
 - » Commentary
- **Anticipated activity for next 12 months**
- **Any areas of anticipated risk requiring interim review**
- **Resourcing implications**
- **Carbon reduction**

6 Conclusions and key actions planned for next 12 months – to be reported to Cabinet

Appendix 6 – Review processes

Spelthorne Borough Council Municipal Property review process Applied to all frehold municipal buildings											
Suitability and need assessment		Evidenced where possible, assessed by service users in conjunction with Asset Management Team							Suggested action		
Building identity and M2	Use	How long will use be required/ relevant?	Is there a cheaper alternative?	Condition	Suitability and sufficiency	Score	Total Score	Commentary, including any strategic /One Public Estates matters to be taken into account	Retain and invest/ repurpose/ dispose		
	Used by SBC for:				Size						
	Used by 3rd party on behalf of SBC for				Configuration						
					Location						
					Accessibility						
					DDI compliant						
Suitability Scoring		15+ years 1 7-15 years 2 0-7 years 3	No 1 Yes 2	Good 1 Servicable 2 Poor 3		Good 1 Servicable 2 Poor 3					
Scores from lowest	8										
To highest	23										
Suitable	10 or under										
In need of improvement	10 to 15										
Unsuitable/ needing significant investment	16 or over										
Target: Address lowest performing 10% per annum											
Financial analysis		Comparative across portfolio for specific value/cost information							Suggested action		
Building identity and M2	Income status	score	Responsibility for Repairs and maintenance	Score	Asset Value/ opportunity cost	Identified investment need (maintenance backlog) £	Identified investment need £/M2	Identified investment need % of asset value	Annual revenue cost	Annual revenue cost per M2	Retain and invest/ repurpose/ dispose
	Income producing score 1		Occupier (where not SBC) Score 1								
	Not income producing score 2		Council score 2								
Scores from lowest	8										
To highest	22										
Value for money	12 or under										
In need of improvement	13 to 17										
Poor value for money.	18 or over										
Target: Address lowest performing 10% per annum											

Spelthorne Borough Council Municipal Property review process Applied to all leased in municipal buildings										
Suitability and need assessment		Evidenced where possible, assessed by service users in conjunction with Asset Management Team							Suggested action	
Building identity and M2	Summary Lease details (Term outstanding, rent, review pattern)	Use	How long will use be required/ relevant?	Is there a cheaper alternative?	Condition	Suitability and sufficiency	Score	Total Score	Commentary	Retain/ seek to relocate
		Used by SBC for:				Size				
		Used by 3rd party on behalf of SBC for				Configuration				
						Location				
						Accessibility				
						DDI compliant				
Suitability Scoring		Sublet Yes 1 No 2	15+ years 1 7-15 years 2 0-7 years 3	No 1 Yes 2	Good 1 Servicable 2 Poor 3		Good 1 Servicable 2 Poor 3			
Scores from lowest	9									
To highest	25									
Suitable	12 or under									
In need of improvement	13 to 19									
Unsuitable/ needing significant investment	20 or over									
Target: Address lowest performing 10% per annum										
Financial analysis		Comparative across portfolio for specific value/cost information							Suggested action	
Building identity and M2	Responsibility for Repairs and maintenance	Score	Annual rent payment	Date of next review	Anticipated capital liability on expiry of lease	Annual revenue cost (including rent)	Annual revenue cost per M2	Retain/ seek to relocate		
	Occupier (where not SBC) Score 1									
	Council score 2									
Scores from lowest	4									
To highest	11									
Value for money	5 or under									
In need of improvement	6 to 8									
Poor value for money.	9 or over									
Target: Address lowest performing 10% per annum										

Spelthorne Borough Council Municipal Property review process Applied to all fully leased out municipal buildings											
Suitability and need assessment			Evidenced where possible, assessed by service users in conjunction with Asset Management Team							Suggested action	
Building identity and M2	details (Term outstanding, rent, review pattern)	Occupier and use	How long will use be required/ relevant?	Is there a cheaper alternative?	Condition	Suitability and sufficiency	Score	Total Score	Commentary, including any strategic /One Public Estates matters to be taken into account		Continue to let/ secure VP and re-purpose or dispose
						Size					
						Configuration					
						Location					
						Accessibility					
						DDI compliant					
Suitability Scoring		Sublet Yes 1 No 2	15+ years 1 7-15 years 2 0-7 years 3	No 1 Yes 2	Good 1 Servicable 2 Poor 3		Good 1 Servicable 2 Poor 3				
Scores from lowest			9								
To highest			25								
Suitable			12 or under								
In need of improvement			13 to 20								
Unsuitable/ needing significant investment			21 or over								
Target: Address lowest performing 10% per annum											

Financial analysis											Suggested action
Comparative across portfolio for specific value/cost information											
Building identity and M2	Responsibility for Repairs and maintenance	Score	Capital value/ opportunity cost	Annual rental income	Annual rental income per M2	Return on investment	Date of next review	Anticipated capital liability on expiry of lease	Annual revenue cost to SBC	Annual revenue cost per M2	Retain/ seek to relocate
Financial scoring	Occupier (where not SBC) Score 1										
	Council score 2										
Scores from lowest			8	In lowest 50% score 1	In lowest 50% score 1	In lowest 50% score 1	In lowest 50% score 1	by building score 1	In lowest 50% score 1	In lowest 50% score 1	
To highest			23	In highest 21-50% score 2	In highest 21-50% score 2	In highest 21-50% score 2	In highest 21-50% score 2	In highest 21-50% by building score 2	In highest 21-50% score 2	In highest 21-50% score 2	
Value for money			12 or under	In highest 20% score 3	In highest 20% score 3	In highest 20% score 3	In highest 20% score 3	In Highest 20% by building score 3	In highest 20% score 3	In highest 20% score 3	
In need of improvement			13 to 18								
Poor value for money			19 or over								
Target: Address lowest performing 10% per annum											

Spelthorne Borough Council Review of landholdings with potential for alternative use or intensified use								
Type of land	Community value?	Income producing?	Development potential?	Existing use value (asset value)	Estimated Alternative/ intensified use value		Negative reputational impact if change of use proposed	Total score
	No score 1	Yes score 2	Yes score 1			EUV<AUV score 1	No score 1	
	Yes score 2	No score 1	No score 2			EUV>AUV score 2	Yes score 2	
Score	If yes, retain. If no, score							
Min score	5 Score of 6 and under check for strategic influence and One Public Estate opportunity, and prioritise for further investigation/action							
Max score	10 Score of 7 and over retain for future reconsideration							
Target: Address lowest performing 10% of scored sites per annum								

NB assessment of Development Potential will reflect any statutory controls/regulations (e.g as can apply to allotments, open space etc), any legal restrictions and the likelihood of securing planning

Excludes minor areas of amenity land on residential estates

These are to be considered positively where applications from neighbours are made to purchase, so long as disposal has no negative impact on the Council or wider amenity of the area.

Spelthorne Borough Council Review of infrastructure					
Type of infrastructure	Does the Council need to own it for strategic/heritage protection reasons?	Is there a potential alternative owner?	Annual revenue cost	Known capital investment need	Any action required
	Yes/No	Yes/No			
		If yes, consider whether liability can be transferred, and at what cost.			Consider in the light of earlier outcomes.
	If Yes, retain and plan maintenance	Compare to ongoing cost of ownership			

Appendix 7 – Weekly Development Monitoring Report Example

Weekly Project Bugle Status report				Project Sponsor Heather Morgan Project Manager Richard Mortimer					
Report Date:		12 March 2019							
Project status Practical Completion is dated as being 7 March 2019. Armfield were served a non completion notice on 9 Jan. The contractual PC date was 7 January. A Liquidated Damages Notice was issued in accordance with the contract on the 8 March. Gross claim is £17,600 based on 8 weeks at £2,200pw. Leader photoshoot with new residents took place on 7 March. Option D rent scenario provides total financial gain to the Council of £117,000pa (rent + B&B savings).				Sales/ revenue	Flat numbers	Flat Rents	Gross rent pcm	Gross rent annual	Net rent per annum (assumes 25% costs)
				1 Bedroom	2	£773.98	£1,547.96	£18,576	£13,932
				2 Bedroom	6	£960.79	£5,764.74	£69,177	£51,883
				Totals	8		£7,313	£87,753	£65,815
Health & Safety		Occurrences		Finance		Cost to Date	Forecast to PC	Comments	
Accidents reported		0		Cabinet approved development costs			£2.4m	£2.4m (confirmed at DIG 24 April this excludes land costs) Approved 21 December 2016	
Near Misses		0		Demolition costs		£30.7k	£31.5k	Completed	
Actions taken		H&S review took place on 14 Nov. Cabling and operative without hardhat and high viz jacket reported to site manager.		Main Contractor build costs		£1.48m	£1.49m	Completed. Final account to be agreed.	
Key Milestones				Comments		Date			
Completion of final Thames Water connections		L	Completed on 21 February 2019	27 Feb 19					
Completion (48 weeks)		L	Practical completion dated 7 March 2019	7 March 19					
Occupation		L	Commenced on 7 March 2019. Should be fully occupied week commencing 11 March 2019.	15 March 19					
Key Issues / Risks				Mitigation		Contingency			
Completion of minor works and snagging.		L	Contractor remaining on site to finish off week commencing 11 March 2019					Percentage protocol to be agreed at DIG	
Liquidated damages claim.		M	Notice of intent served. Will need to see whether Armfield intend to counterclaim with EoT (Extension of Time) details			Total			
				Return on cost		Gross yield per annum		Net yield per annum (assuming 25% costs)	
						3.41%		2.56%	

Appendix 8 – Indicative resourcing requirements

Spelthorne Borough Council – future resourcing analysis – initial overview

The resourcing requirement will be determined by the work/roles required to deliver the business. The quantity of resource required will develop over time as the portfolio grows/changes over time.

Overall Business Manager/Director											
Investment portfolio	Municipal portfolio	Residential portfolio	Residential Facilities Management	Property development & Regeneration	Data, compliance and office management	Financial management					
Resources Acquisitions and disposals Investment Management Day to day management, lettings, L&T issues Strategic investment Review and performance monitoring/reporting	Resources Acquisitions and disposals/transfer to development Day to day management - liaison with occupiers, occupational leases to third parties Strategic investment Municipal FM and R&M Property review and asset management	Resources Residential lettings/disposals Day to day management and caretaking Strategic investment/planned maintenance programmes Review of overall performance, return on investment, reporting	Resources Cross portfolio repairs and maintenance and dilapidations Hard FM Management of common parts and caretaking	Resources R&M/FM dilapidations manager R&M/FM support Site/opportunity identification/acquisition Programme management Project management Planning Contract procurement Contract management (day to day) Completion and snagging Handover to Housing Portfolio managers	Resources Development director Development Surveyors/ Project Managers x2 Asset register Occupational information Property management systems administration Contracts data Maintenance programmes Utilities data Property specific data Health and Safety and Compliance data (Testing certificates etc.) Control of data and change management protocols Insurance Stationery and supplies	Resources Data, compliance and office manager Data/compliance manager x3 Rent collection and payments Arrears management Service charge management Sinking fund Cost management Financial analysis and performance Accounting and reporting					
External advisers											
Cost consultant/QS External investment advisers/agents and Valuation surveyor Due diligence support - e.g. Deloitte		Covering R&M, investment related and development related advice		Planning advisers/consultants Development consultants/liability appraisal support Architects Specialist advisers as required		Lawyers (Property, Construction, HR, Planning, procurement etc.) Mix of in and out house HR, pensions etc. IT/website support External accountants Contract Management Procurement advice PR and Communications					
External providers											
Various building contractors, glaziers, handy persons, locksmiths etc Gardeners and Grounds Maintenance (could be procured from SBC)				Building contractors Possibility partnering arrangement? External construction project management (if required)							
Growth plans to 2024 (Subject to business plan)											
H1 Investment Manager Traines			Lettings Negotiator and support x2	R&M/FM support x 2		H1 Project Manager Traines					Financial support

