

# Strategic Asset Review

July 2016

Scrutiny Committee Update



13<sup>th</sup> Dec 2016

## Agenda

1. Report Scope
2. Strategic Context
3. Civic Centre, Leyland
4. Worden Hall & Park
5. Moss Side Depot
6. Commercial Property Portfolio
7. Leyland Market Hall

# 1. Report Scope

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- Total net book value **c£24m**
- High level review of key operational and incoming generating assets
- Key objectives to provide strategic advice on:
  - Fitness for purpose
  - Future use and management
  - Potential for investment and expansion
  - Values, costs and future maintenance liabilities



## 2. Strategic Context

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1. City Deal

2. Funding / budget cuts

3. Collaboration agenda

4. More proactive

5. Independent advice

### 3. Civic Centre, Leyland – Space needs

- Total operational expenditure **£505k per annum**
- Corporate objective – to be an efficient, effective and exceptional Council

14.3 sq m  
per staff



6.4 sq m  
per staff

**Civic Centre significantly over-sized relative to future needs**

**Council's footprint could be reduced by 40%**

- 5 Future Options considered against key criteria



### 3. Civic Centre, Leyland – Options Summary

Option	Scenario	Viability
1 - Base Case	Continuation of current arrangements	✘
2 (a) - Retain and Optimise	Consolidate staff within the building. Reconfigure the space so that 3 floors have separate access and seek to let the surplus space to a <b>private sector</b> third party occupier	✘
2 (b) – Retain and Optimise	Consolidate staff within the building. Reconfigure the space so that 3 floors have separate access and seek to let the surplus space to a <b>public sector</b> third party occupier	✔
3 - Retain and Reconfigure	Consolidate staff within the building and create separate access as per Option 2, but undergo more extensive refurbishment to split the surplus space into small office units	✘
4 - Exit and lease	Relocate to existing space elsewhere. Dispose of existing site for alternative use.	✘
5 – Exit and new build	<b>Longer term solution</b> involving re-provision/relocation (a) alone (b) in partnership. Dispose of existing site for alternative use or redevelop.	✔

### 3. Civic Centre, Leyland – Local Partner Engagement

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### 3. Civic Centre, Leyland – Key conclusion

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- Site with biggest potential to deliver cost savings, efficiencies, value and future service benefits
- Pursue a strategy based on:
  - a) Continuing to explore letting of surplus space – offices and catering
  - b) Consider future opportunities with partners for co-working and shared facilities










# Worden Hall & Park – Issues and Approach

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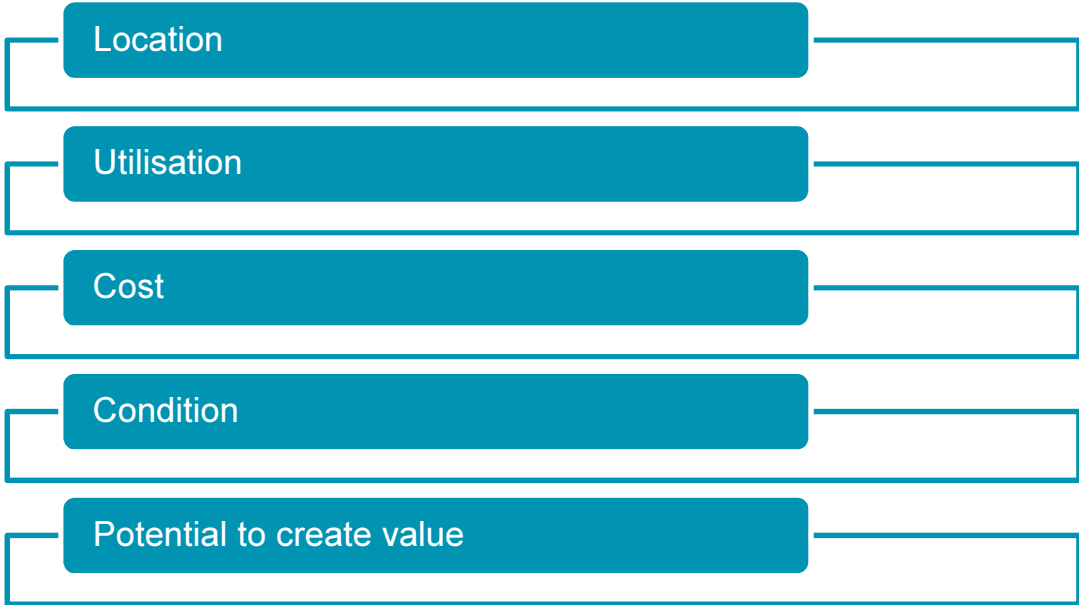
- Difficult and sensitive site
- Estimated Repair liability of £225,000 in total, of which £130,000 are considered to be essential works
- Objectives:
  - a) Bring the building back into active use
  - b) Reduce ongoing revenue liability
  - c) Reduce long term risk to the Council
- Evaluation of:
  - a) Opportunities and constraints
  - b) Likely commercial appetite from operators, developers and investors



# Worden Hall & Park – Market Review

Option	Description	Viability	Conclusions
1	Conversion of the wing back to its original use		<ul style="list-style-type: none"> <li>Residential use would not sit well with the public use</li> <li>Not viable based on build costs and achievable end values</li> </ul>
2	Small scale “creative” scheme		<ul style="list-style-type: none"> <li>Little value set against costly conversion works</li> <li>Limited potential for grant assistance</li> </ul>
3	Wedding Venue		<ul style="list-style-type: none"> <li>Active market demand for similar properties for use as wedding venues</li> <li>Overall small scale not attractive (minimum 150 people)</li> <li>Extension required to create a large hall space – development/planning risk</li> <li>Investors/operators prefer to buy not rent</li> </ul>
4	Hotel		<ul style="list-style-type: none"> <li>Again scale is an issue</li> <li>Limited opportunity</li> <li>A large commercial kitchen would need to be installed</li> <li>Known hotel requirements in the area e.g. Premier Inn, but site not suited</li> </ul>
5	Restaurant		<ul style="list-style-type: none"> <li>Good demand - Fine Dining focussed British and Italian cuisine</li> <li>Site is accessible locally and to the M6 which is a key benefit</li> <li>Added potential for business orientated lunch trade</li> <li>Generally seeking long term property interests e.g. 20-25 years</li> <li>Potential complementary opportunity to rent out the upper floor rooms as small scale meeting/function space</li> </ul>

# Moss Side Depot



Found to be appropriately located and satisfactorily supports the Council's operational needs



# Commercial portfolio

Headlines - in scope

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**92**  
assets

**134,000**  
sq ft space

**£5.7m\***  
capital value

**£770,000**  
pa income

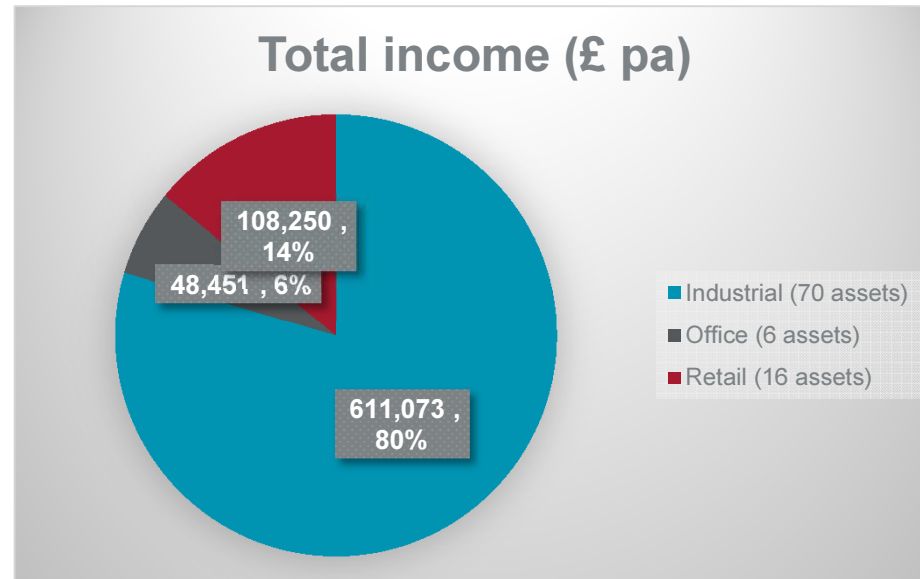
**11.6%**  
average gross yield

**6**  
locations

# Commercial Property Portfolio – Future Investment

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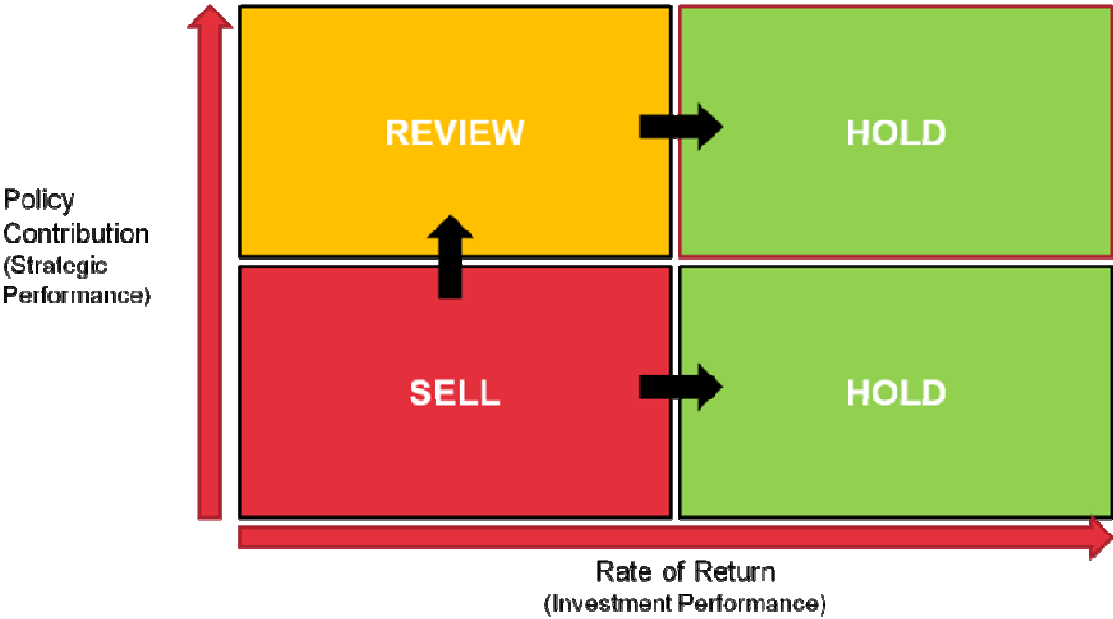
- Increase diversification
  - By sector
  - Geographically
- Increase lot size
- Improve quality
- Alternative funding routes



# Commercial portfolio

## Strategic Framework

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Overall RAG - 12 out of 16 rated green

# Commercial portfolio

## Key Performance Indicators

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### KPI 1 - Strategic Performance

- An asset's role in meeting wider strategic, economic, environmental or social objectives
- Legacy estate
- Focus on financial performance as key driver for future management

### KPI 2 - Vacancy Rate

- Measure of total non-occupied floor space as % of total available
- Overall vacant rate = **4%**

### KPI 3 - Gross Initial Yield

- A measure of the current income return from the property, ignoring ongoing management costs
- 10.5 to 12.5% range and average **11.6%**.

### KPI 4 - Income risk

- WAULT is a metric often used by investors to measure the risk of a multi-tenanted property going vacant
- Average WAULT across all locations is **2.11 years**



# Commercial Property Portfolio – Managing Retained Assets

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<b>Condition</b>	<ul style="list-style-type: none"><li>•Backlog maintenance liability</li><li>•Enforcing FRI terms</li><li>•Energy Act 2011 implications</li></ul>
<b>Resourcing</b>	<ul style="list-style-type: none"><li>•Closer engagement with market</li><li>•Increasing demand on estates and legal resource</li></ul>
<b>Rent arrears</b>	<ul style="list-style-type: none"><li>•Generally not a big issue</li><li>•Consider use of debt recovery agency</li></ul>
<b>Disposals</b>	<ul style="list-style-type: none"><li>•Disposal routes</li><li>•Valuations</li></ul>
<b>LR and RRs</b>	<ul style="list-style-type: none"><li>•Clear backlog</li><li>•Use to drive value</li></ul>
<b>WAULT</b>	<ul style="list-style-type: none"><li>•Proactive approach</li><li>•Opportunities to drive up rental tone</li></ul>



# Leyland Market

## Overview



- **Small but successful** market hall in Leyland town centre:
  - Diverse offer
  - 36 stalls
  - 100% occupancy
  - £135k pa income
- Focus on **maximising income** and potential to **expand provision**
- **Research**
  - The competition
  - 25 other markets
  - Consultation with internal experts
- **Themes** - what works well and what doesn't
- **Future options and initiatives**
- **Key risks**

# Leyland Market Hall

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- Market is trading successfully, but SRBC needs to continuously seek innovation and ensure the offer remains current and competitive
- Modernisation
  - More differentiated / contemporary offer
  - Physical
- Case for a new Market Hall is weak
- Future risks and issues



# Next Steps

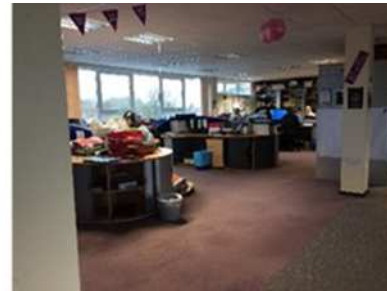
## Civic Centre

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The review has identified 3 key priority works streams:

### Civic Centre

- Vacant space
- Use of kitchens and banqueting facilities including catering function
- Develop business model
- Procurement process
- Budget considerations



# Next Steps

## Worden Hall

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### Worden Hall

- Consultation with relevant heritage/conservation/planning bodies
- Technical feasibility/surveys and cost analysis
- Prepare site for marketing
- Review and budget for wider investment required e.g. building works, car parking and access



# Next Steps

## Commercial Portfolio

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### Commercial Portfolio

- Future acquisitions
- Future disposals
- Funding for future investment
- Vehicle for moving above forward



# What Next?

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- Set up internal officer group
- Set up cross party member group(s)
- Consider budget implications and impact on financial strategy



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