

**Democratic Services**

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Date: 15 November 2016

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**To: All Members of the Resources Policy Development and Scrutiny Panel**

Councillors: Sarah Bevan (Chair), Bob Goodman (Vice-Chair), Christopher Pearce, Jasper Becker, Colin Barrett, Chris Dando and Andrew Furse

Chief Executive and other appropriate officers  
Press and Public

Dear Member

**Resources Policy Development and Scrutiny Panel: Wednesday, 23rd November, 2016**

You are invited to attend a meeting of the **Resources Policy Development and Scrutiny Panel**, to be held on **Wednesday, 23rd November, 2016** at **4.30 pm** in the **Council Chamber - Guildhall, Bath**.

The agenda is set out overleaf.

*(Members - please note there will be a workshop from 3pm-4pm in the Council Chamber, hosted by this Panel for all PDS members on the budget process).*

Yours sincerely



Michaela Gay  
for Chief Executive

**If you need to access this agenda or any of the supporting reports in an alternative accessible format please contact Democratic Services or the relevant report author whose details are listed at the end of each report.**

*This Agenda and all accompanying reports are printed on recycled paper*

## NOTES:

- 1. Inspection of Papers:** Any person wishing to inspect minutes, reports, or a list of the background papers relating to any item on this Agenda should contact Michaela Gay who is available by telephoning Bath 01225 394411 or by calling at the Guildhall Bath (during normal office hours).
- 2. Public Speaking at Meetings:** The Council has a scheme to encourage the public to make their views known at meetings. They may make a statement relevant to what the meeting has power to do. They may also present a petition or a deputation on behalf of a group. Advance notice is required not less than two full working days before the meeting (this means that for meetings held on Wednesdays notice must be received in Democratic Services by 4.30pm the previous Friday)

The public may also ask a question to which a written answer will be given. Questions must be submitted in writing to Democratic Services at least two full working days in advance of the meeting (this means that for meetings held on Wednesdays, notice must be received in Democratic Services by 4.30pm the previous Friday). If an answer cannot be prepared in time for the meeting it will be sent out within five days afterwards. Further details of the scheme can be obtained by contacting Michaela Gay as above.

- 3. Details of Decisions taken at this meeting** can be found in the minutes which will be published as soon as possible after the meeting, and also circulated with the agenda for the next meeting. In the meantime details can be obtained by contacting Michaela Gay as above.

Appendices to reports are available for inspection as follows:-

**Public Access points** - Reception: Civic Centre - Keynsham, Guildhall - Bath, The Hollies - Midsomer Norton. Bath Central and Midsomer Norton public libraries.

**For Councillors and Officers** papers may be inspected via Political Group Research Assistants and Group Rooms/Members' Rooms.

- 4. Recording at Meetings:-**

The Openness of Local Government Bodies Regulations 2014 now allows filming and recording by anyone attending a meeting. This is not within the Council's control.

Some of our meetings are webcast. At the start of the meeting, the Chair will confirm if all or part of the meeting is to be filmed. If you would prefer not to be filmed for the webcast, please make yourself known to the camera operators.

To comply with the Data Protection Act 1998, we require the consent of parents or guardians before filming children or young people. For more information, please speak to the camera operator

The Council will broadcast the images and sound live via the internet [www.bathnes.gov.uk/webcast](http://www.bathnes.gov.uk/webcast) An archived recording of the proceedings will also be available for viewing after the meeting. The Council may also use the images/sound recordings on its social media site or share with other organisations, such as broadcasters.

- 5. Attendance Register:** Members should sign the Register which will be circulated at the meeting.

6. THE APPENDED SUPPORTING DOCUMENTS ARE IDENTIFIED BY AGENDA ITEM NUMBER.

**7. Emergency Evacuation Procedure**

When the continuous alarm sounds, you must evacuate the building by one of the designated exits and proceed to the named assembly point. The designated exits are sign-posted.

Arrangements are in place for the safe evacuation of disabled people.

**Resources Policy Development and Scrutiny Panel - Wednesday, 23rd November, 2016**

**at 4.30 pm in the Council Chamber - Guildhall, Bath**

**A G E N D A**

1. WELCOME AND INTRODUCTIONS

2. EMERGENCY EVACUATION PROCEDURE

The Chair will draw attention to the emergency evacuation procedure as set out under Note 6.

3. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

4. DECLARATIONS OF INTEREST

At this point in the meeting declarations of interest are received from Members in any of the agenda items under consideration at the meeting. Members are asked to indicate:

(a) The agenda item number in which they have an interest to declare.

(b) The nature of their interest.

(c) Whether their interest is **a disclosable pecuniary interest** *or* **an other interest**,  
(as defined in Part 2, A and B of the Code of Conduct and Rules for Registration of Interests)

Any Member who needs to clarify any matters relating to the declaration of interests is recommended to seek advice from the Council's Monitoring Officer or a member of his staff before the meeting to expedite dealing with the item during the meeting.

5. TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIRMAN

6. ITEMS FROM THE PUBLIC OR COUNCILLORS - TO RECEIVE DEPUTATIONS, STATEMENTS, PETITIONS OR QUESTIONS RELATING TO THE BUSINESS OF THIS MEETING

At the time of publication no notifications had been received.

7. MINUTES (Pages 7 - 12)

8. 2016/17 BUDGET MONITORING AND THE PROGRESS WITH STRATEGIC REVIEW IMPLEMENTATION (Pages 13 - 30)

A report is attached on 2016/17 Budget Monitoring and the Progress with Strategic Review Implementation. The recent Cabinet report is attached as an appendix.

9. COMMERCIAL ESTATE (Pages 31 - 70)

There will be a presentation at the meeting on the Commercial Estate. Presentation slides and an appendix are attached.

10. CABINET MEMBER UPDATE

The Cabinet Member will update the Panel on any relevant issues. Panel members may ask questions on the update provided.

11. PANEL WORKPLAN (Pages 71 - 74)

This report presents the latest workplan for the Panel. Any suggestions for further items or amendments to the current programme will be logged and scheduled in consultation with the Panel's Chair and supporting officers.

The Committee Administrator for this meeting is Michaela Gay who can be contacted on 01225 394411.

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**BATH AND NORTH EAST SOMERSET**

**RESOURCES POLICY DEVELOPMENT AND SCRUTINY PANEL**

Wednesday, 14th September, 2016

**Present:-** Councillors Sarah Bevan (Chair), Bob Goodman (Vice-Chair), Christopher Pearce, Jasper Becker, Colin Barrett, Chris Dando and Andrew Furse

**24 WELCOME AND INTRODUCTIONS**

The Chairman welcomed everyone to the meeting.

**25 EMERGENCY EVACUATION PROCEDURE**

The Chairman drew attention to the emergency evacuation procedure.

**26 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS**

There were none.

**27 DECLARATIONS OF INTEREST**

Councillor Barrett stated that he is an honorary members of WWISE.

**28 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIRMAN**

There was none.

**29 ITEMS FROM THE PUBLIC OR COUNCILLORS - TO RECEIVE DEPUTATIONS, STATEMENTS, PETITIONS OR QUESTIONS RELATING TO THE BUSINESS OF THIS MEETING**

Pamela Galloway – WWISE made a brief statement thanking the Panel for support regarding warm water swimming at Bath Leisure Centre. She informed the Panel that GLL are looking at their proposals and will be producing a report in due course. Councillor Gerrish, Cabinet Member for Efficiency and Resources added that a meeting will be set up with WWISE members and the Leader of the Council and Councillor Veal – Cabinet member for Community Services.

**30 MINUTES**

Following the amendments shown below, the Panel confirmed the minutes of the previous meeting as a true record and they were duly signed by the Chairman:

- The question and answer document will be appended to the minutes;
- WWISE reference should read 'Bath Leisure Centre' not Keynsham.

## 31 COUNCIL TAX BENEFIT REVIEW

Ian Savigar, Divisional Director Customer Service introduced the report. He explained that the authority is planning to implement a revised scheme for Local Council Tax Support for people of working age from April 2017. He explained that a public consultation on a preferred scheme is underway and concludes in October 2016. He referred to an update sheet handed out at the meeting 'Summary of Responses to New LCTS Scheme Public Consultation' (appended to the minutes).

Panel members made the following points and asked the following questions:

Councillor Barrett asked if the numbers of responses had met expectation. The officer stated that, so far, yes this met expectations. The officer also explained that the number of people receiving benefits has decreased.

Councillor Pearce asked where the £4m for the scheme comes from and if there is additional money or if the revised scheme is just about how the money is allocated. The officer confirmed that the revised scheme has the same cost but will contain changes in how the money is allocated. Councillor Pearce asked if there is likely to be substantial winners and losers. The officer stated that between 400-500 will significantly lose out but the scheme is designed to be better and fair, so that number is offset by winners who have higher levels of need, and the Welfare Support Team will gain some additional funding to support those who are most affected.

Councillor Dando referred to the potentially unhappy respondents and asked if the money could be split differently. The officer explained that there would be people who will lose out as well as those that gain but overall the aim is for a simpler and fairer system more in line with Universal Credits. Councillor Dando spoke to officers regarding the best way to get full information on this issue.

Councillor Gerrish, Cabinet Member for Efficiency and Resources, explained that with any changes in the benefit system there will be people who are differently impacted and that people who have less as a result of these changes will be targeted by the Welfare Support Team. He confirmed that it is the process that is being changed, not the overall spend.

Following a question from Councillor Furse, the officer explained that 55 responses had been received and the total number of claimants is 5, 500. Councillor Furse stated that we have to be careful as this is such a small sample. Councillor Furse asked if a better taper could be considered as there seems to be a cliff edge. The officer explained that most people fall into band 3 so the perceived issue is not as great as it might appear and there is a limit to the number of bands that can be achieved.

Councillor Becker asked how the Universal Credit system is working. The officer explained that this system has been in place since May this year and that Housing Benefit numbers have come significantly down. He explained that there have been some teething problems around temporary accommodation but that this has had more of an effect on Curo (new applicants have to wait 5 weeks for the first payment). Administratively it is working well so far.



## 32 ORGANISATIONAL DEVELOPMENT

Ticki Toogood, Organisational Development Manager gave a presentation on Organisational Development to the Panel which covered the following:

- What is Organisational Development?
- Corporate Strategy
- Our progress
- OD principles
- Emerging Themes
- What will success look like?

Panel members made the following points and asked the following questions:

Councillor Pearce asked how OD is different from other approaches. The officer explained that it is about involving people, getting ownership and getting people to be involved in solutions to problems. Andrew Pate, Strategic Director for Resources explained that the organisation has changed over the last 4/5 years and will change again in the next 4/5 years. He explained that the leadership team has worked on this approach to ensure that people are more alive to changes and that silos are broken down. Councillor Pearce asked if this learning has filtered down, the Director explained that work has been done to get the message out but this is a challenge. He explained that if the PDR system is simpler, it is more likely to work.

Councillor Barrett asked if the authority grows its own talent and does this show in the percentage of staff that are promoted rather than being recruited externally. He also pointed to the recent move away from external support and asked if savings have been made. William Harding – Head of Human Resources and Organisational Development explained that the reference in the report refers to the spend on OD rather than spend in general. In past year £100-£130k has been spent on external help and now it is £20 - £30k. He stated that the point regarding growing internal talent is valid and more attention is now being put to learning and development.

Councillor Furse commented that there is a balance to be struck between maintaining a highly skilled workforce and making savings. The Strategic Director added that apprenticeships and developing skills are important. He explained that this presentation is new and is at an early stage but that it will help the organisation.

Councillor Dando stated that it is a good presentation about getting ownership from individuals and it is good this is being done internally.

Councillor Goodman asked if salaries have an impact in officers rising through the ranks of the organisation. The officer stated that there is another piece of work being done regarding the workforce and development plan in the financial context.

William Harding added that in this 'millennial generation' there is a body of evidence that motivations are different from past generations and money is not always the main motivation. He added that for the first time there will be five generations in the workforce.

### 33 COMMUNICATIONS

Jonathan Mercer – Communications Manager gave a presentation to the Panel which covered the following:

- The Media Landscape
- Worldmap of Facebook Users
- Sky news on social media
- Changes in the media
- Changing behaviour
- Interest access in the UK and the Digital Divide
- What are we successfully doing now?
- Successful video campaigns
- Engaging suitable content reaches more
- The future – opportunities and challenges
- Social Media – Real time updates
- Social Media – recruiting
- Social Media – events
- Volunteers: recruiting and recognition
- Integrated campaigns on and off line
- Improving engagement with staff
- Channel shift and raising income
- New commercial website approach – mobile enabled
- Stripped back Council website – find information in seconds
- Reaching across the digital divide
- More lifestyle information on local radio
- Connect magazine
- Media/community response
- What will communications look like in 2 years.

Panel members made the following points and asked the following questions:

Councillor Barrett asked if there is an issue with abusive emails, the officer explained that there can be aggressive emails but not bullying. Accounts can be blocked if necessary.

Councillor Dando asked if the search engine will be developed and also if the Council sees its role as supporting local media. The officer explained that the website will be made much simpler during its next stage of development and be made more mobile friendly. He further explained that all press releases are sent to the local media.

Councillor Becker asked how many people in the authority do not have internet access. The officer explained that the national figure is 10%.

**34 CABINET MEMBER UPDATE**

Councillor Charles Gerrish, Cabinet Member for Efficiency and Resources updated the Panel that the Government have announced a change in the business rates system and this authority has applied to be in the pilot.

**35 PANEL WORKPLAN**

The Panel noted the workplan with the following additions:

The Panel may have Directorate Plans in January 2017 – this is to be confirmed.

Councillor Furse stated that the Panel should look at outturn reports to assess whether the authority has achieved objectives and is on the right trajectory. The Cabinet Member explained that it is a dilemma as there is no guarantee to get the figures for September for the November meeting – the timing may be wrong.

It was agreed that the Chair will liaise with the Strategic Director on when is the best time for the Panel to receive meaningful information.

The meeting ended at 6.30 pm

Chair(person) .....

Date Confirmed and Signed .....

**Prepared by Democratic Services**

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<b>Bath &amp; North East Somerset Council</b>	
MEETING/ DECISION MAKER:	<b>Resources Policy Development &amp; Scrutiny Panel</b>
MEETING/ DECISION DATE:	<b>23<sup>rd</sup> November 2016</b>
TITLE:	<b>2016/17 Budget Monitoring and the Progress with Strategic Review Implementation</b>
WARD:	All
<b>AN OPEN PUBLIC ITEM/</b>	
<p><b>List of attachments to this report:</b></p> <p>Report to Cabinet (November 2016) Revenue and Capital Budget Monitoring, Cash Limits and Virements – April 2016 to September 2016</p>	

## **1 THE ISSUE**

- 1.1 2016/17 Budget Monitoring and the Progress with Strategic Review Implementation.
- 1.2 The panel has asked for an update which is provided in the attached documents that have only just been considered by Cabinet.

## **2 RECOMMENDATION**

The Panel is asked to;

- 2.1 Comment of the monitoring report
- 2.2 Refer any concerns to the Portfolio holder for Finance & Efficiency
- 2.3 Note any of the reported items that may have ongoing implications as these will need to be taken into account in next year's budget setting

## **3 RESOURCE IMPLICATIONS (FINANCE, PROPERTY, PEOPLE)**

- 3.1 As set out in the attached Cabinet report

## **4 STATUTORY CONSIDERATIONS AND BASIS FOR PROPOSAL**

- 4.1 As set out in the attached Cabinet report.

## 5 THE REPORT

5.1 As set out in the attached Cabinet report.

## 6 RATIONALE

6.1 As set out in the attached Cabinet report.

## 7 OTHER OPTIONS CONSIDERED

7.1 As set out in the attached Cabinet report.

## 8 CONSULTATION

8.1 As set out in the attached Cabinet report.

## 9 RISK MANAGEMENT

9.1 A risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision making risk management guidance.

<b>Contact person</b>	<i>Tim Richens, Divisional Director Business Support – 01225 477468</i>
<b>Background papers</b>	Report to Cabinet (July 2016) Revenue and Capital Budget Monitoring, Cash Limits and Virements – April 2016 to July 2016
<b>Please contact the report author if you need to access this report in an alternative format</b>	

# Bath & North East Somerset Council

MEETING:	<b>Cabinet</b>	
MEETING DATE:	<b>14<sup>th</sup> November 2016</b>	EXECUTIVE FORWARD PLAN REFERENCE:
		<b>E 2870</b>
TITLE:	<b>Revenue and Capital Budget Monitoring, Cash Limits and Virements – April 2016 to September 2016</b>	
WARD:	All	

## AN OPEN PUBLIC ITEM

### List of attachments to this report

**Appendix 1:** Revenue & Capital Monitoring Commentary

**Appendix 2:** Revenue Monitoring Statement: All Council Spending

**Appendix 3:** Capital Monitoring Statement: All Council Spending

**Appendices 4(i) & 4(ii):** Proposed Revenue Virements & Revised Revenue Cash Limits 2016/17

4(i) <https://democracy.bathnes.gov.uk/documents/s44307/E2870z%20Appendix%204i.pdf>

4(ii) <https://democracy.bathnes.gov.uk/documents/s44308/E2870z%20Appendix%204ii.pdf>

**Appendices 5(i) & 5(ii):** Capital Virements & Capital Programme by Portfolio 2016/17

5(i) <https://democracy.bathnes.gov.uk/documents/s44309/E2870z%20Appendix%205i.pdf>

5(ii) <https://democracy.bathnes.gov.uk/documents/s44310/E2870z%20Appendix%205ii.pdf>

## 1 THE ISSUE

1.1 This report presents the financial monitoring information for the Authority as a whole for the financial year 2016/17 to the end of September 2016.

## 2 RECOMMENDATION

The Cabinet agrees that:

2.1 Strategic Directors should continue to work towards managing within budget in the current year for their respective service areas and develop an action plan of how this will be achieved, including not committing any unnecessary expenditure and stringent budgetary control.

2.2 This year's revenue budget position as shown in Appendix 2 is noted.

2.3 The capital expenditure position for the Council in the financial year to the end of September and the year end projections detailed in Appendix 3 are noted.

- 2.4 The revenue virements listed for approval in Appendix 4(i) are agreed, and those listed for information are noted.
- 2.5 The capital virements listed for approval in Appendix 5(i) are agreed, and those listed for information are noted.

### **3 RESOURCE IMPLICATIONS (FINANCE, PROPERTY, PEOPLE)**

- 3.1 The financial implications are contained within the body of the report.

### **4 STATUTORY CONSIDERATIONS AND BASIS FOR PROPOSAL**

- 4.1 The annual medium term financial planning process allocates resources across services with alignment of these resources towards the Council's corporate priorities. This report monitors how the Council is performing against the financial targets set in February 2016 through the Budget setting process.

### **5 THE REPORT**

- 5.1 The Budget Management Scheme requires that the Cabinet consider the revenue and capital monitoring position four times per year.
- 5.2 For revenue budgets which are forecast to be overspent, the Divisional Directors are expected to seek compensating savings to try and bring budgets back to balance.
- 5.3 Appendix 1 highlights any significant areas of forecast over and under spends in revenue budgets. Appendix 2 outlines the Council's current revenue financial position for the 2016/17 financial year to the end of September 2016 by Cabinet Portfolio. The current forecast outturn position is for an overspend of £941,000 which equates to 0.30% of gross budgeted spend (excluding Schools).
- 5.4 Strategic Directors will work to manage their budgets within the overall allocations approved by the Council, and this will include the development of appropriate mitigating actions as the financial year progresses.
- 5.5 The forecast outturn position includes the requirement for the delivery of £12.644m savings as part of the approved budget for 2016/17, a significant element of which was been confirmed as delivered.
- 5.6 The Council's financial position, along with its financial management arrangements and controls, are fundamental to continuing to plan and provide services in a managed way, particularly in light of the medium term financial challenge. Close monitoring of the financial situation provides information on new risks and pressures in service areas, and appropriate management actions are then identified and agreed to manage and mitigate those risks.
- 5.7 Revenue budget virements which require Cabinet approval are listed in Appendix 4(i). Technical budget adjustments are also shown in Appendix 4(i) for information purposes as required by the Budget Management Scheme.



5.8 Appendix 3 outlines the current position for the 2016/17 Capital budget of £87.602m, with a current forecast spend of £75.955m, which is £11.648m less than the budget.

5.9 Capital budget virements which require Cabinet approval are listed in Appendix 5(i). Previously approved budget adjustments are also shown in Appendix 5(i) for information purposes as required by the Budget Management Scheme, while Appendix 5(ii) provides the updated capital programme allocated by Portfolio.

## 6 RATIONALE

6.1 The report is presented as part of the reporting of financial management and budgetary control required by the Council.

## 7 OTHER OPTIONS CONSIDERED

7.1 None

## 8 CONSULTATION

8.1 Consultation has been carried out with the Cabinet Member for Finance & Efficiency, Strategic Directors, Section 151 Finance Officer, Chief Executive and Monitoring Officer.

## 9 RISK MANAGEMENT

9.1 A risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision making risk management guidance.

9.2 The substance of this report is part of the Council's risk management process. The key risks in the Council's budget are assessed annually by each Strategic Director, with these risks re-assessed on a monthly basis as part of the budget monitoring process.

<b>Contact person</b>	<i>Tim Richens - 01225 477468 ; Jamie Whittard - 01225 477213</i> <a href="mailto:Tim_Richens@bathnes.gov.uk">Tim_Richens@bathnes.gov.uk</a> <a href="mailto:Jamie_Whittard@bathnes.gov.uk">Jamie_Whittard@bathnes.gov.uk</a>
<b>Background papers</b>	<i>Budget Management Scheme</i>
<b>Please contact the report author if you need to access this report in an alternative format</b>	

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### REVENUE BUDGET MONITORING APRIL 2016 TO SEPTEMBER 2016

- 1.1 Appendix 2 outlines the Council's current financial position for the 2016/17 financial year to the end of September 2016 by Cabinet Portfolio. The Appendix shows the current forecast outturn position is an overspend of £941,000 or 0.30% of the gross expenditure budget (excluding Schools).
- 1.2 Strategic Directors will continue to work to manage their budgets within the overall budget allocations approved by the Council. This will include the development of appropriate mitigating actions as the financial year progresses, including not committing any unnecessary expenditure and stringent budgetary control.
- 1.3 The forecast outturn position includes the requirement for the delivery of £12.644m savings as part of the approved budget for 2016/17, a significant element of which was been confirmed as delivered.
- 1.4 Within the current £941,000 forecast overspend figure, there are areas of over and under spending which are detailed below, along with any planned management actions being taken to reduce projected overspends.

#### 1.5 **Leader's Portfolio – forecast £120,000 overspend**

This forecast overspend is in Legal & Democratic Services, where the proposed service restructure in order to achieve savings targets will not be implemented until April 2017 due to external and additional unplanned work demands on the Council Solicitor, e.g. EU Referendum. Management actions have been taken to prevent further overspend, and the April 2017 restructure will deliver the full savings from 2017/18.

#### 1.6 **Finance & Efficiency Portfolio – forecast £476,000 underspend**

The forecast overspend on this portfolio is made up of the following variances:

**Support Services:** There is a £609,000 overspend forecast across Support Services.

Customer Services are forecasting an improved position of a £327,000 overspend. The shortfall is mainly a result of reduced grant related to Universal Credit implementation, and other savings that have not been identified, as well as the income target from potentially running a "Payment by Results" pilot scheme with the Department for Works & Pensions not currently proceeding.

Within Human Resources, there is a shortfall of income from Schools following academy conversions, which have resulted in a forecast overspend of £154,000. There is also a £65,000 staffing overspend forecast in People Services, where the full efficiency savings from the new Payroll system are yet to materialise.

There is a net £55,000 forecast shortfall of budgeted income within Commercial Estate, mainly attributable to tenants in administration causing letting delays.

In addition, Traded Services are forecast to be £50,000 overspent in Print Services, with a review underway to generate efficiency savings, and £78,000 overspent in Catering, owing to an overspend in Community Meals where consultation is currently taking place for mitigating actions, and delayed food procurement savings.

Within the Portfolio, there is also £82,000 of management savings across Support Services which are yet to be identified, and £160,000 of further Procurement savings targets across the Council which are yet to be achieved.

These overspends are partially offset by underspends £269,000 in Corporate Estate, due to lower accommodation and energy costs, and £167,000 in Information Technology project budgets.

**Corporate costs:** £1,085,000 forecast underspend. There is additional income of £300,000 forecast from the Thermae Spa Profit Share arrangements, and a £560,000 underspend forecast in Capital Financing costs, owing to capital programme slippage delaying the need to borrow, and Minimum Revenue Provision (MRP) savings. There is also an £80,000 surplus in the budget for Education Services Grant reduction, plus several other small underspends including the Charter Trustees not taking their budgeted grant, unfunded pensions costs and a small projected surplus on the Council contribution required for historic pension deficit recovery.

### **1.7 Adult Social Care & Health Portfolio – forecast on target**

The Adult Social Care revenue budget forecasts a balanced outturn position for 2016/2017. This position has been supported by anticipated use of the Social Care Reserve, as planned when the budget was set; this is mitigating inflationary and demographic pressures in Adult Social Care as a result of the implementation of the Living Wage and the costs associated with purchased care packages supporting complex service users in their home. The current service pressure is forecast to be £1,433,000 which will be balanced by a transfer from the Social Care Reserve. (Increased from £698,000 following further information from Service Users as to pressures).

### **1.8 Children's Services Portfolio – forecast £1,125,000 overspend**

The forecast overspend within this Portfolio is due to a number of pressures.

Children's Social Care operational costs are forecast to overspend by £457,000 due to increased spend on court action and Child Sexual Exploitation awareness to help the safety of younger people, as well as an overspend on staffing where staffing remains at a level that ensures the safe monitoring and protection of vulnerable children whilst ensuring good outcomes, and are in line with other Local Authorities who have been commended in Ofsted inspections as providing appropriate services to vulnerable children. This area is being reviewed to identify potential mitigations.

There is also an improved position forecast of a £252,000 overspend forecast (previously £300,000 overspend) on Children's Centres and Nurseries, where although management costs have been reduced, income targets have not been

met. The provision of this will be reviewed in areas where there is a high level of alternative service delivery.

In addition, there is also a forecast overspend of £650,000 for Home to School Transport, due to pressures on Special Educational Needs (SEN) and Mainstream transport, following demand increases as a result of legislative change in recent years. Also, high demand from outside the area for places in the Council's Special Schools is making the placement of pupils locally increasingly difficult, and therefore it is required to transport pupils further distances outside of the area. Efforts are being made to extend capacity by opening SEN units within mainstream schools and Academies. There is also review of transport currently underway.

Pressures in the Safeguarding Assurance and Quality Assurance budgets have arisen from additional staffing needed to cover workload increases, including from an exceptional safeguarding investigation (which has now been concluded). Work is underway to review capacity and to explore alternative approaches to some areas of work to reduce this overspend.

### **1.9 Homes & Planning Portfolio – forecast £80,000 underspend**

An overall underspend of £16,000 is forecast within Development, with staffing underspends and higher than budgeted pre-application planning income. Within Housing, there is a £63,000 underspend forecast, mainly due to reduced consultancy fees and additional HMO licencing income.

### **1.10 Economic Development Portfolio – forecast £330,000 underspend**

There is a £250,000 overspend forecast in Economy & Culture, where savings attributable to a review of Destination Management and income from “Digital B&NES” have been delayed. This is offset by a £458,000 forecast over achievement of Heritage Services profit target, reflecting visitor trends remaining above the national average for visitor attractions (£254,000 from Easter 2016), and also a £101,000 underspend in Regeneration, owing to the temporary increased recharges to Capital Projects such as Bath Quays.

### **1.11 Community Services Portfolio – forecast £472,000 overspend**

Within Waste & Fleet Services, there is a reduced forecast overspend of £258,000 (from £455,000). This includes a £164,000 adverse variance in Fleet Services, where an external review of the service is continuing with a view to further close these gaps. In addition, there is an improved forecast overspend at £112,000 (from £230,000 overspend) in Waste Treatment & Disposal, as a result of contracts requiring renegotiation and changes in the market since last renegotiated. This is partially offset by recycling contract savings, where contract deflation has been successfully negotiated.

There is also an £62,000 overspend forecast in Libraries due to savings not currently identified, although a review of this is being carried out, a £100,000 pressure in Place Overheads due to the decision to fund the 2016 Christmas light

displays, and a £53,000 shortfall in Public Protection licensing income, mainly owing to street trading in Southgate underperforming against expectations.

#### **1.12 Transport Portfolio – forecast £105,000 overspend**

The £214,000 pressure on Bus Lane Enforcement has been mitigated by higher than budgeted income from car parking and parking enforcement, as well as staffing savings in the Parking Office & Enforcement Teams, resulting in a net £59,000 underspend forecast in Transport & Parking Services. There is a £163,000 overspend forecast in Highways, predominantly due to Policy & Development where difficulties in recruiting staffing vacancies on statutory provision are being covered by agency staff.

## CAPITAL BUDGET MONITORING – APRIL 2016 TO SEPTEMBER 2016

- 2.1 The approved Capital Programme for 2016/17 is currently £87.602m, and is detailed in Appendix 5(ii). Changes to the Capital Programme since September Cabinet are shown highlighted in Appendix 5(i).

### Progressing Capital Projects Updates

- 2.2 **Bath Transport Package: Main Works** – The installation of variable message signs on A36, A4, A46 and A420, plus six real time information installations along Dorchester Street, will all be completed this financial year, which will complete the whole project.
- 2.3 **Transport Improvement Programme** – Multiple schemes now underway or in design and consultation, with some scheduled for progression later during 2016/17. Tunley/Overdale footway works now complete. Saltford pedestrian crossings upgrades, as well as Bannerdown Road footway, are due for construction in October, and are all currently on target. Phases 2 and 3 on North Parade are due for completion end of October 2016. The additional drainage work identified will be covered by contingencies allowed for in the original £300,000 allocation, and a small saving on Phase 1.
- 2.4 **Highways Maintenance Programme** – Schemes progressing, with the programme of works agreed with contractors, including the additional grant of £176,000 and further £500,000 allocation. Surfacing and surface treatment programmes are substantially complete.
- 2.5 **Kennet & Avon Towpath** – Works covering improvements to the length, width and surface of the towpath between Sydney Gardens and Bathampton were completed in July 2016. Final project completion including seating, cycle stands and signing anticipated by end 2016/17.
- 2.6 **East of Bath Transportation** – An update report was taken to Cabinet in May 2016 which highlighted the options available for the possible location of an East of Bath Park and Ride, arising from the work done by the Local Development Framework Steering Group and the Communities Transport and Environment Policy Development & Scrutiny Panel.
- 2.7 **Waste Infrastructure Relocation** – In recent months, approval to take forward the development at Locksbrook for the relocation of the Outer Bath Street Cleansing team has been given. A Single Member Decision was approved on 13<sup>th</sup> August 2016 for the land acquisition and design development for the relocation of Refuse and Recycling collection operations, Commercial Waste Service and Waste Transfer Station. In addition, works to explore options for the Bath Recycling Centre are underway.
- 2.8 **Bath Leisure Centre Refurbishment** – The first phase of works of the development are progressing to build the new enlarged Health & Fitness Suite and refresh the remaining Sports Hall. Final costs and timescales for the remaining phases of works are being developed now. The project is anticipated to be on budget.

- 2.9 **Keynsham Leisure Centre** – The acquisition of the lease has been completed. Following both public and stakeholder consultation, a final scheme has now been submitted to the planning authority for a pre-application response. The response to this pre-application has been received, and final amendments to the scheme are under way in preparation for a planning application in October 2016. A public feedback session has taken place in Keynsham on 3rd October 2016 to present the results of the June consultation. Further work is required to identify the full financial requirements.
- 2.10 **Affordable Housing** – Extra Care Scheme at Ensleigh (Lansdown) progressing, with on-site start expected early 2017/18. 13 Rural units at Farmborough will complete Autumn 2016. 5 rural affordable housing units in Bathampton are starting on site during Autumn 2016, with completion in 2017/18. Capital funding requirements for a shared housing project for young people are being finalised, and capital funding is being identified to secure the retention of a small rural housing scheme in the Chew valley.
- 2.11 **Digital B&NES** – The Connecting Devon & Somerset broadband rollout programme is on target for the completion of phase 1 by the end of 2016. The phase 2 Invitation to Tender is now available publicly, and a contract will be awarded by December 2016. Delivery of Phase 2 of CDS is expected to commence in late Spring, early Summer 2017. Public WiFi in Bath City Centre will be considered for implementation in Spring 2017.
- 2.12 **Saw Close Regeneration** – Private casino and leisure development on site. Revolving Infrastructure Funding approved by LEP board in early January 2016 for wider public realm improvement. Site surveys have commenced, identifying potential issues with existing underground services, and designers are working up solutions to manage within budget. Engagement with local business, user groups and the public is complete.
- 2.13 **RIF Project – Destructor Bridge:** Bridge super-structure now complete, with final project completion expected in October 2016.
- 2.14 **RIF Project - Gas Holders:** Gas holder decommissioning works completed, with the holder bases remediated and removed. Phasing of final remediation and pipework rationalisation works is under review against final land assembly.
- 2.15 **RIF Project - Bath Quays Waterside (Innovation Quay):** Highway diversion completed and operational, and the north bank service diversions substantially complete. North bank archaeological investigations are complete, and ground contamination and requirement to undertake further archaeological work have extended excavation programme. The completion of works now likely to be in Quarter 1 2017
- 2.16 **Bath Quays North** – Proposals for procurement of development partner being considered with a decision by Council in 2016/17. A revised outline EDF Business Case is being prepared and submission is expected in Autumn 2016, with detailed business cases to be submitted by end of 2016/17.



- 2.17 **Bath Quays South** – Executive decision to progress direct delivery of scheme to come forward in Autumn 2016. Planning submission expected to similar timescale.
- 2.18 **Bath Quays Bridge** – Aiming towards a bridge planning application submission in parallel with the Quays development in 2016, with construction completion forecast before 2017/18 year end.
- 2.19 **Roman Baths Archway Project** – This £5 Million project will provide a new Roman Baths Learning Centre and World Heritage Centre, and extend public access for daytime visitors to previously unseen parts of the Roman Baths. The project will be funded by a Council capital contribution of up to £1Million, together with a Heritage Lottery Fund (HLF) grant of £3.4Million, other grants and fundraising. The grant application to the HLF has been approved. The Roman Baths Foundation has secured a grant of £75k for the project from the Garfield Weston Foundation and many individual and smaller donations. At this point in time further applications to grant-giving bodies are in progress as fund-raising continues for the remaining £200,000. Decisions on the outstanding applications are expected in the Autumn.
- 2.20 **Schools Capital Maintenance Programme** - The replacement of poor condition temporary buildings at St Michael's Junior School is complete, and the children moved into the new modular building at the start of the school year in September 2016. The kitchen works at Chandag Infant School are also complete, and worst condition repairs and maintenance projects are ongoing at Farmborough, Peasedown St. John, St. Philip's Odd Down, Ubley and Westfield.
- 2.21 **Saltford Primary - Basic Need** - The school converted to academy status as part of the Wellsway MAT on 1<sup>st</sup> September 2016. Mealings have been appointed as contractor for the scheme, and will start on site early October.
- 2.22 **Paulton Junior School - Basic Need** - The contractor has commenced works on site to remodel areas of the school and provide new accommodation. The additional temporary classroom space for 30 pupils has been completed, and works are ongoing to deliver the permanent block of 4 classrooms and hall extension.
- 2.23 **Ensleigh (Abbot Alphege Academy) - New Primary School** - Construction of the new school began on site in July 2016. The project is on programme to deliver the new accommodation for September 2017 admissions. Comenius Trust, the new school sponsor, is engaged in the process and the DfE have been updated on the project milestones.
- 2.24 **Adult Social Care Database replacement** - The Liquidlogic project achieved its key milestone with the system having a successful 'go-live' in September 2016. Work is continuing to identify areas for further development and enable transition of the system into business as usual from the project team.
- 2.25 **Grand Parade & Undercroft** - Planning consent has been approved. The project team are updating the business plan based on the current rental forecast to determine the most viable way to progress this scheme. All options will be considered.

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Portfolio Summary Monitor	CURRENT YEAR 2016/17 FORECAST OUTTURN					ADVERSE / FAVOURABLE
	REVENUE SPENDING For the Period APRIL 2016 to SEPTEMBER 2016	Forecast Gross Expenditure	Forecast Gross Income	Net Forecast Actual	Annual Current Budget	
	£'000	£'000	£'000	£'000	£'000	
Leader	6,200	(627)	5,573	5,453	120	ADV
Finance & Efficiency	108,203	(104,723)	3,480	3,957	(476)	FAV
Adult Social Care & Health	103,306	(45,396)	57,910	57,905	5	ADV
Children's Services	156,287	(126,343)	29,944	28,819	1,125	ADV
Homes & Planning	6,784	(3,492)	3,292	3,372	(80)	FAV
Economic Development	16,978	(21,222)	(4,243)	(3,913)	(330)	FAV
Community Services	31,572	(10,489)	21,083	20,611	472	ADV
Transport	26,162	(20,427)	5,735	5,630	105	ADV
<b>TOTAL COUNCIL</b>	<b>455,493</b>	<b>(332,719)</b>	<b>122,774</b>	<b>121,833</b>	<b>941</b>	<b>ADV</b>

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Portfolio Summary Monitor  Capital Monitor Apr 2016/17 - Sep 2016/17	CURRENT YEAR 2016/17 FORECAST OUTTURN		
	Forecast Actual Expenditure	Annual Current Budget	Forecast In-Year Variance
	£'000	£'000	£'000
Leader	899	899	0
Finance & Efficiency	23,104	25,100	(1,996)
Adult Social Care & Health	1,639	1,598	41
Children's Services	13,583	13,583	1
Homes & Planning	759	759	()
Economic Development	8,539	13,015	(4,476)
Community Services	12,652	16,091	(3,439)
Transport	14,779	16,557	(1,778)
<b>TOTAL COUNCIL</b>	<b>75,955</b>	<b>87,602</b>	<b>(11,648)</b>

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# Resources Policy Development & Scrutiny Panel

## November 2016

### Commercial Estate Update

# Presentation Areas

- » Overview of the Estate
- » Performance
- » Management Team
- » Acquisitions and Developments
- » Strategic Direction



# Overview of the Commercial Estate

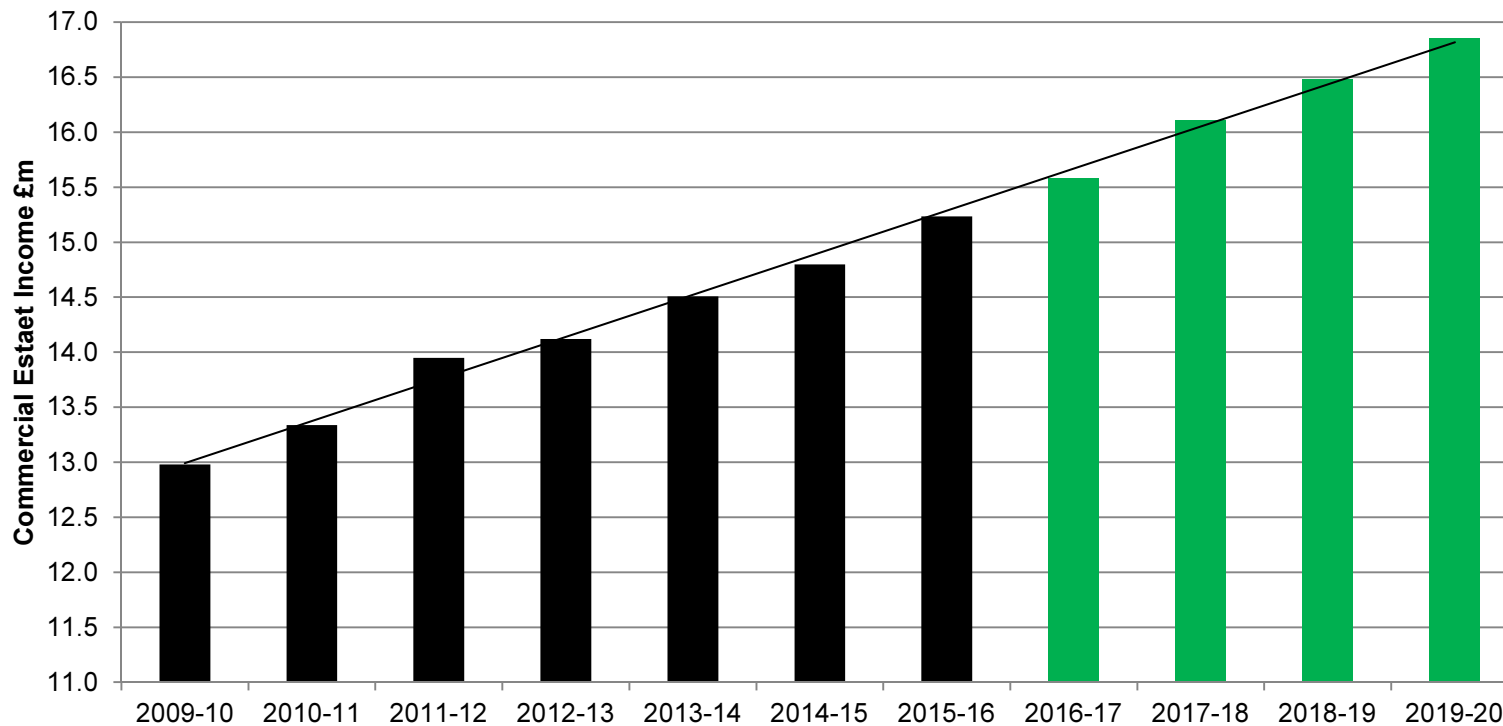


# Key Facts

- » 433 assets, comprising of 205 investment estate and 228 other (held for operational reasons but generate some income):
- » Current asset value of £250.4M (*Open market Red Book valuation*)
- » Produced a rental income in excess of £15.2 million in 2015/16
- » Forecasted to generate £15.6 million in 2016/17
- » Comprises retail, commercial, industrial & leisure properties located primarily in Bath City Centre
- » The investment estate produce a gross revenue return of around 5.5% in 15/16

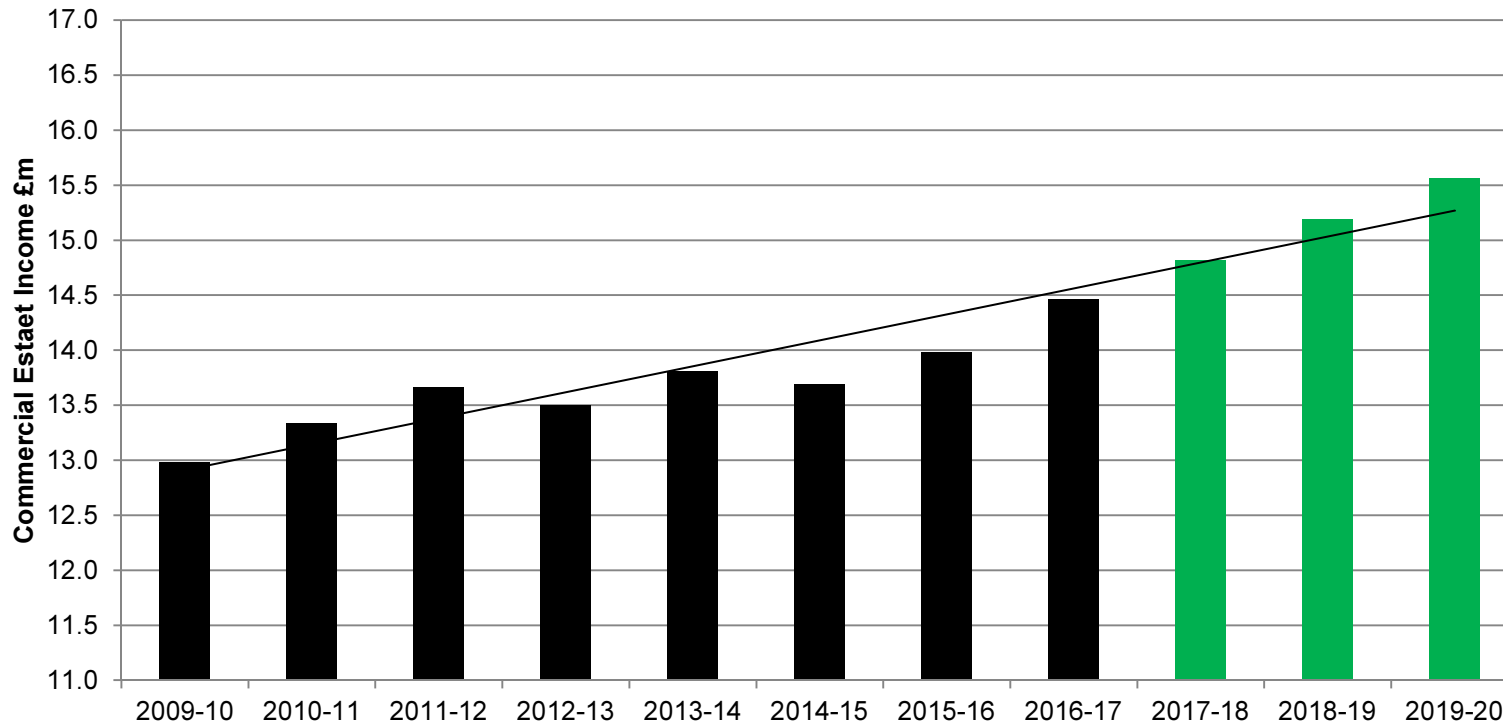
# Gross Income Growth (Including Acquisitions)

Commercial Estate Rental Income 2009-2020



# Gross Income Growth (Excluding Acquisitions)

Commercial Estate Rental Income 2009-2020



# Breakdown of portfolio by type

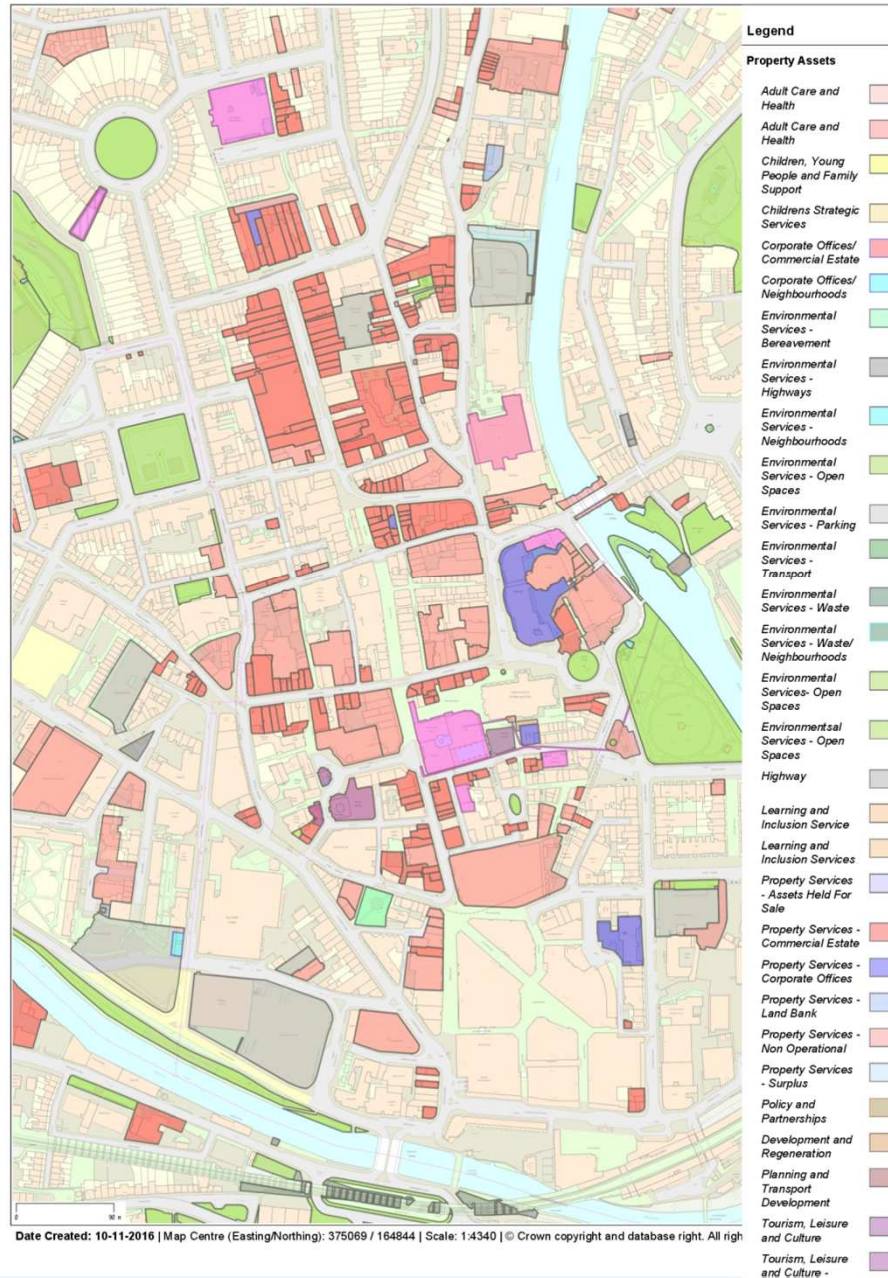
<b>Retail</b>	Prime	55
<b>Retail</b>	Secondary	56
<b>Retail</b>	Tertiary	55
<b>Licensed</b>		21
<b>Offices</b>		10
<b>Industrial</b>		8
<b>Other</b>		228
<b>Total Commercial Estate</b>		433

# Property types





# Commercial Estate Ownership - Bath



## Interesting facts

- » 1249 - Earliest recorded acquisition – property in South Street purchased for 3 marks and 4 shillings (£2.20 today) by the Mayor of Bath
- » 1646 - First recorded by-law for managing Corporation's estates
- » 17<sup>th</sup> Century lease provisions included “that every person that hath a thatched house shall not mend his house with thatch but shall repair it with tyle or slate.”



## Current Commercial Estate Objectives

- » **The maintenance of the architectural significance of Bath** as a World Heritage City is actively promoted and encouraged.
- » The estate is to **contribute towards the resources** necessary to enable the Council to meet its corporate and strategic objectives.
- » **Support Economic Development** initiatives.
- » **Maintain a diverse and appropriate range of retailers** to promote Bath as a destination
- » **Provide workspace accommodation** for new, small and expanding businesses within the B&NES area.
- » **Enable residential uses in the vacant upper floor** accommodation in retail centres.

# Statutory powers

- » The Commercial Estate is held under the provisions of **Section 120(1)(b) of the Local Government Act 1972** and gives the Council express powers to acquire land by agreement for the benefit, improvement or development of their area. The Act also provides that a principal council may acquire any land, whether situated inside or outside of its area.
- » **Localism Act 2011** provides a general power of competence which a local authority can exercise anywhere in the United Kingdom, or elsewhere.
- » Other Councils acquire property in accordance with **s120 anywhere within the UK or beyond**. This will however require further legal investigation.

# Performance of the Commercial Estate

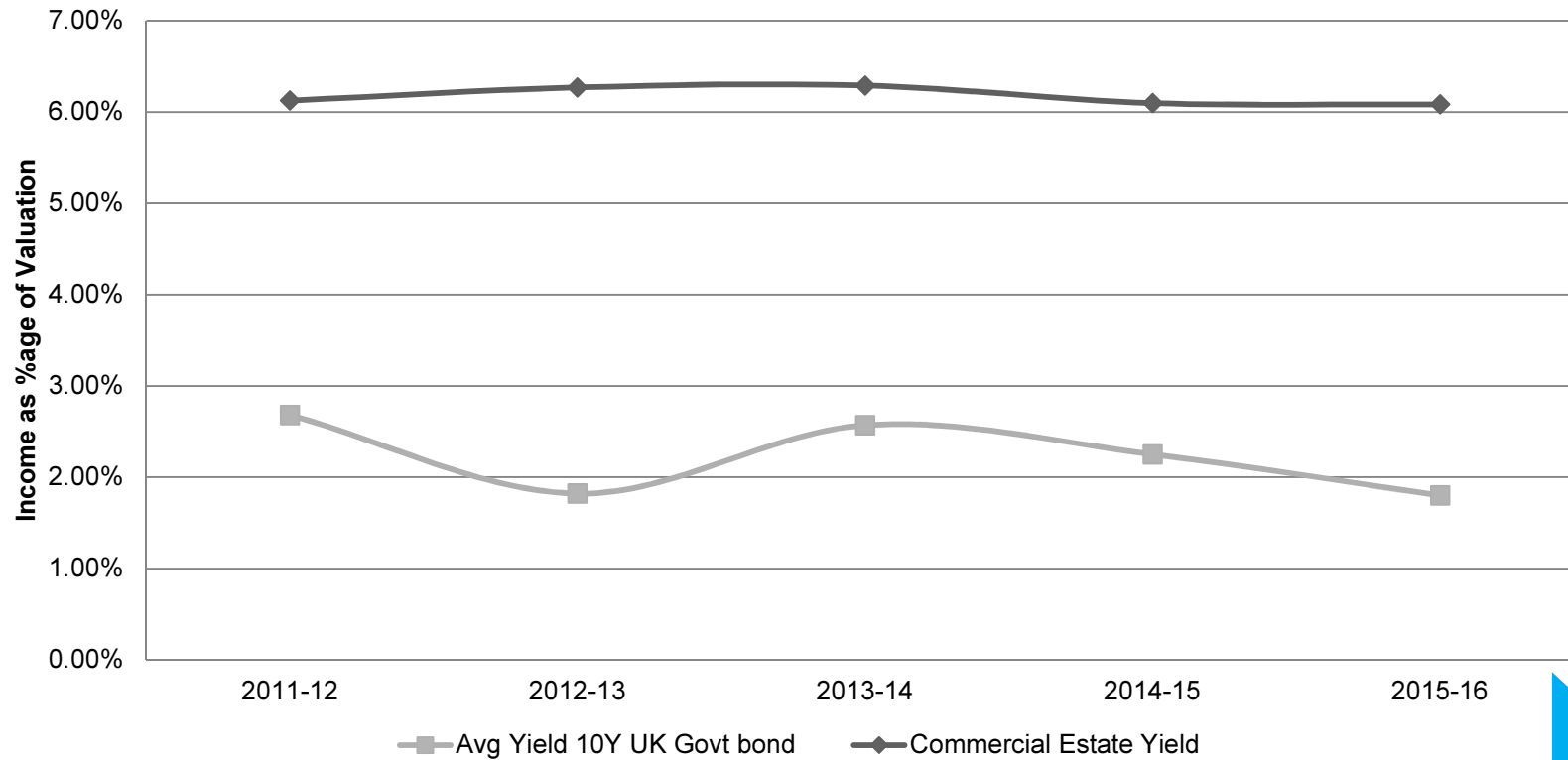


# Performance

- » Rental growth of circa 2.7% per annum over last 6 years
- » Growth of gross income from £13M in 09/10 to £15.2M in 15/16
- » Forecast growth to continue
- » Gross revenue return of over 6% in 15/16
- » Total debt at October 2016 - £19M giving a gearing of only 7.6% LTV (*Standard Life Investment Property Income Trust maintain gearing at 30% LTV*)

# Gross Revenue Return Performance

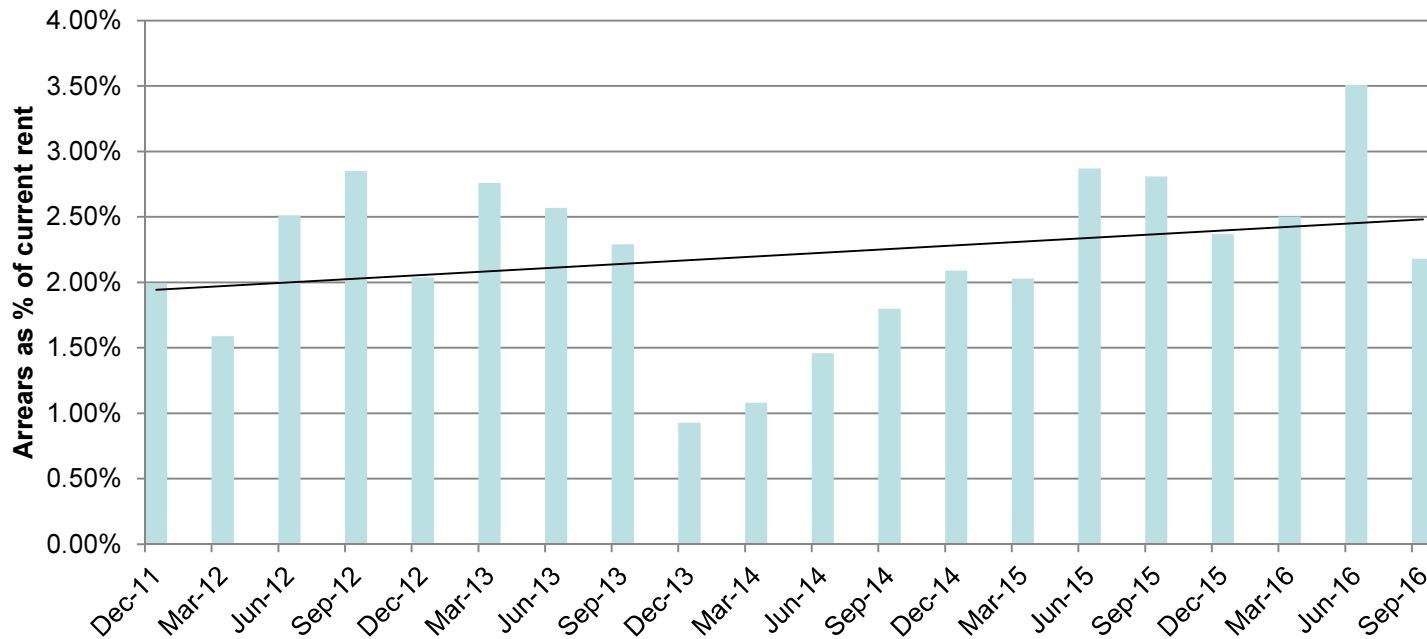
## 5 year Gross Revenue Return for the Commercial Estate



# Rent Arrears

- Trend line between 2 and 2.5%
- Sector benchmark for debt management around 5%

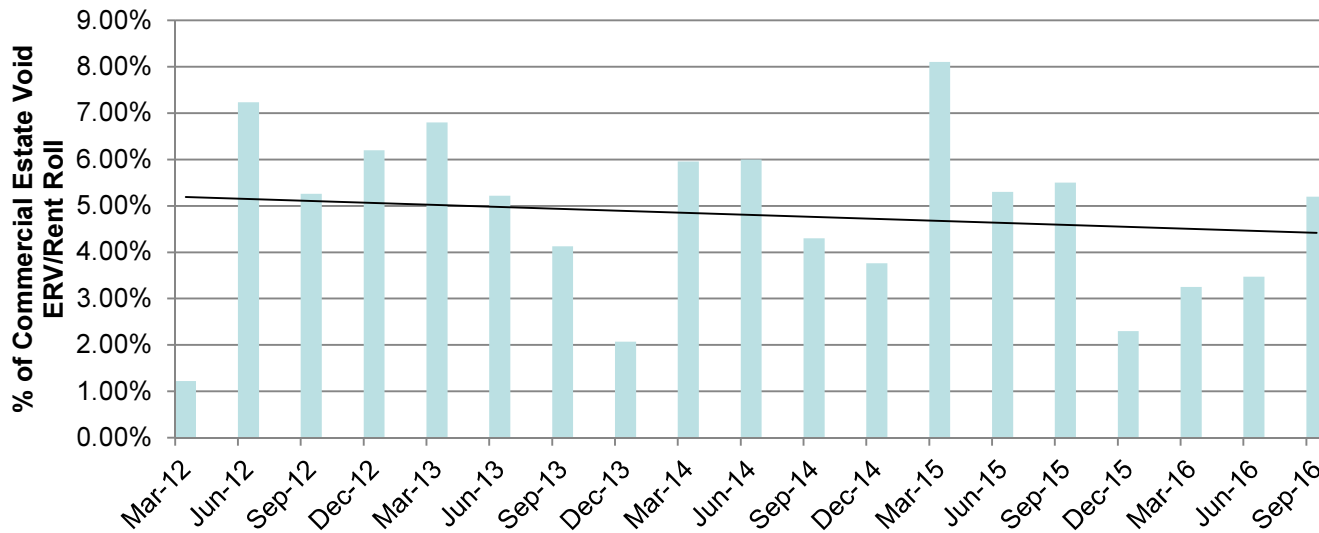
**Commercial Estate - Average Arrears** (excludes managed debt)



# Voids

- IPD voids data -
- Spring Board Retail Intelligence reported the national town centre vacancy rate in the UK was **9.1%** in January 2016
- The UK Retail Vacancy rate increased for the first time since Q2 2012 in Q3 2016, climbing to 12.4%
- B&NES trend line around **5%**

Commercial Estate - Temporary Voids



# Management Cost

- » Landlord and Tenant team direct staffing budget 10/11 was £428K
- » In 16/17 the direct staffing budget has reduced to £402K or **2.6% of total rent**
- » Staffing number **reduction of 11%** in last 4 years
- » Benchmark data for management cost indicates **around 5% is the norm** for a large estate
- » 16/17 the revenue budget for **maintaining the estate, excluding staff, is £376K**. This covers maintenance, servicing, utilities and insurance, funded from gross rent income.



# Management Team of the Commercial Estate



# Internal Staffing

- » **Head of Service** – A Fellow of RICS (the Royal Institution of Chartered Surveyors) and RICS Registered Valuer with 30 years' experience in both public and private property sectors.
- » **Team Manager** - A Member of RICS and RICS Registered Valuer. Experience in both public and private sectors.
- » **Senior Estates Surveyor** - A Member of RICS. The majority of experience gained within the private sectors.
- » **Estates Surveyors x 5** – Management Surveyors. All posts require that the Surveyors are professionally qualified members of RICS. Current Surveyors have a variety of experience; the majority of which has been gained in the private sector.
- » **Estates Technicians x 2**. One is qualified to Tech RICS level.

Note – Excludes staff dedicated to management of the R&M

# Critical Partner

Work with BNP has been focussed on four key areas:

- » Challenge the status quo ensuring industry best practice.
- » Composition of the investment portfolio
- » Understanding and mitigating the risk of the retail focus
- » Assist in the Development of an investment strategy based on the development of AMP's to support an acquisition and disposal programme in pursuance of the growth of secure net income.

# Acquisitions and Estate Development



Bath and North East Somerset – *The place to live, work and visit*

# Acquisition and Restructures

In the last 3 years the Council has acquired:

- » 47 Milsom Street –Freehold purchased, £5.15M. Gross Rent £246,750 p.a with initial gross revenue return over 5%
- » Jolly's - £5.46M restructure resulting in increase in rent of £418,500 p.a, 7.7% gross revenue return
- » Seven Dials –Long leasehold purchased for £8.4M. Rent £588,800 p.a, over 7% gross revenue return
- » 30-35 Westgate Street – November 16 £7.8M investment for the freehold purchase generating £446,400 pa rent with a gross revenue return of over 5.7%

# Office Development - BQS



# Major Commercial Estate Development

- » BQS - 60,000 ft<sup>2</sup> office
- » £16.2M investment in Grade A Office space
- » HoT's with existing Bath employer securing high quality jobs in the city
- » Producing commercial return
- » Long lease commencing 18/19
- » Joint working with Community Regeneration

# Investment Funding

- » The previous acquisitions have to date been **funded through borrowing.**
- » Public Works Loan Board rates are currently at low levels and it is recommended the Council takes **advantage of these rates to fund further investment acquisitions**
- » To supplement the borrowing, the Council has also recently approved that **capital receipts** from disposal of underperforming and surplus commercial estate assets be ring **fenced for future investments**



# Emerging Strategy for the Commercial Estate



Bath and North East Somerset – *The place to live, work and visit*

## Context - Strategic Review Targets

» Increase gross income:

» 16/17 - £15.6M

» 17/18 - £16.1M

» 18/19 - £16.5M

» 19/20 – £16.9M

# Performance Targets

Working with our Critical Partner, BNP, the following draft performance targets have been developed:

- » Increasing the annual **net income by £1.25M** within three years and 1% over the IPD Annual Property Index thereafter.
- » Reducing exposure to the Retail **sector to 80%** of total ERV within three years and **70% within six years**.
- » Reducing the income secured against higher risk covenants to **no more than 40%** of the total gross rents payable within three years and 30% within six years
- » Maintaining the average property **voids at 1% below IPD**

# Existing Estate Management

## Growth of secure net income

- » **Achieve increased revenue** generation and improve the resilience of that income by seeking to **rebalance** the portfolio slightly more away from its dependence on retail.
- » **Challenge of existing assets** to justify their retention, re-investment or disposal, together with an acquisition strategy that focusses on increasing the quantum of non-retail stock within the estate.

# Acquisition– future approach

- » **Further acquisitions funded by debt** ,taking advantage of the current low PWLB rates where they exist, will seek to achieve the correct balance between investment return and security of income, through **rebalancing the estate** away from over reliance on retail .
- » Limited availability of good quality non-retail investment stock within B&NES.
- » The property market is suggesting that rental growth in the industrial and distribution warehouse sector is forecasted to outperform retail by a significant margin over the next five years
- » **Potential for the Council to purchase investment opportunities beyond the BANES boundary.**

# Commercial Estate Objectives

## *Are these still correct?*

- » **The maintenance of the architectural significance of Bath** as a World Heritage City is actively promoted and encouraged.
- » **The estate is to contribute towards the resources** necessary to enable the Council to meet its corporate and strategic objectives.
- » **Support Economic Development** initiatives.
- » **Maintain a diverse and appropriate range of retailers** to promote Bath as a destination
- » **Provide workspace accommodation** for new, small and expanding businesses within the B&NES area.
- » **Enable residential uses** in the vacant upper floor accommodation in retail centres.

# Questions for PDS

The panel is asked for its views on the following:

- » The emerging strategy to rebalance the portfolio through acquisitions
- » The emerging strategy to borrowing to invest
- » The emerging strategy to invest outside of the B&NES area
- » The proposed performance targets
- » The Commercial Estate Objectives
- » The BNP Critical Partner letter of November 2016

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**Valuation**

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E-mail: David.stubbs@bnpparibas.com

For the attention of Richard Long

Your Ref:  
Our Ref: DJS/130189

11 November 2016

Dear Richard

## Commercial Estate Strategic Review

You have asked us to provide a review on the progress made towards the preparation of a strategy for the management of the Commercial Investment Estate (the "Estate").

We understand that this review will accompany your report to the Policy Development and Scrutiny Panel (the "Panel") on 24 November 2016.

### Background

The Estate comprises approximately 220 assets valued at c£250m, the majority of which are retail premises located in Bath city centre. The Estate makes a significant contribution of c£15m pa to the revenues of the Council.

You have been asked to report to the Scrutiny Panel with your proposals for the future management of the Estate.

We have attended two strategy workshops at which the following topics have been discussed:

- a) Key strategic objectives
- b) Key targets
- c) Work streams

You have asked us to review your emerging strategy in our role as your Specialist Adviser and Critical Friend, a role to which we were appointed in 2013. During that time we worked with you to develop a strategy, the suggested key element of which was a Prime Objective of "The development of the growth of secure net income" supported by three Secondary Objectives:

**BNP Paribas Real Estate Advisory & Property Management UK Limited**

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Regulated by RICS



## BNP PARIBAS REAL ESTATE

- ◇ The building of resilience into future income.
- ◇ The release of capital with limited loss of income for re-investment in the Portfolio.
- ◇ The contribution towards the achievement of wider corporate objectives.

Since these objectives were suggested in 2013, the Council has moved towards a smarter way of looking at its property assets by adopting a whole council approach. For example the Estate is contributing to the objectives of ADL, the Council's residential development company, and the local independent trader tenants are regarded as contributing to the wider economy and hence the achievement of corporate objectives.

The Council has also agreed that the proceeds of sales out of the Estate can be re-invested in the Estate. This was a significant step forward, changing the Estate from a "closed" fund to an "open" fund, thereby significantly improving your ability to rebalance the Estate.

A consequence of this smarter way of looking at your property assets there is a need to revisit the objectives and targets of the Estate, hence the strategy workshops.

## The Emerging Strategy

We now review the three topic areas referred to above.

### Key strategic objectives

The objectives submitted by you for consideration were:

- I. To contribute toward the maintenance of the architectural significance of Bath as a World Heritage City*
- II. To make a significant contribution towards providing the resources necessary to enable the Council to meet its corporate and strategic objectives*
- III. To promote and encourage a diverse and appropriate range of shopping uses in Bath*
- IV. To support the Council's Economic Development and Regeneration Initiatives*
- V. To provide accommodation on flexible terms to new and expanding businesses in the Bath & North East Somerset Council area, with an emphasis on achieving a diversity of businesses on each site*
- VI. To actively promote the beneficial use of upper floor accommodation in retail centres, with the emphasis on introducing residential uses*

### Commentary

The adoption of six objectives, only one of which is financial, will in our opinion lead to a lack of clear direction and focus. Our understanding is that the Estate's prime function is the production of sustainable income which can then be applied to the delivery of services by the Council. We recognise the quite proper wish that the Estate also contributes to the wider objectives of the Council such as economic growth.

The Council needs to decide whether the prime objective is indeed financial and if it is to then have in place a mechanism by which a conflict between the financial and wider objectives can be resolved.

The financial objective as drafted (ii.) does not address what we perceive to be the key requirements of any financial contribution to the Council's finances, namely:



# BNP PARIBAS REAL ESTATE

- The income should be sustainable to ensure that future reductions of income are avoided and providing budgeting certainty
- The income should grow in order to offset the impact of inflation on the Council's revenues
- The cost of running the Estate should be minimised without impacting on its ability to deliver its objectives

We are not convinced that it is necessary to identify five specific non financial objectives and would suggest that a contribution to the Council's corporate objectives should suffice. If you do retain these objectives we believe they require further explanation and a way of measuring success.

## Recommendations

- I. That the Prime Objective of the Estate be financial.
- II. That the Estate should also contribute to the corporate objectives of the Council.
- III. That a mechanism be put in place to resolve any conflict between the financial and corporate objectives.

## Key targets

The current targets are:

Key Activities	Timescales	Performance Measures
Income profiling	Annual target	Actual v target
Management of voids (empty properties)	Monthly	Level of void properties. Target less than 4% of rent roll
Management of debt	Quarterly	Rent arrears. Target less than 5% of rent roll

The following additional targets were submitted by you for consideration:

- ◇ Increasing the annual net income by £X within three years and y% over IPD thereafter.
- ◇ Reducing exposure to the Retail sector to X% of total ERV within three years and Y% within six years.
- ◇ Reducing the income secured against very high risk covenants to no more than X% of the total gross rents payable within three years and Y% within six years
- ◇ Maintaining the average property voids at X% below IPD

## Commentary

If it is agreed that the Prime objective is financial, it is essential to set targets against which performance can be measured. Those targets should be relevant to both the Prime and Secondary objectives.

We believe the key target to be the annual growth in net income (i.e. the income that is available for the Council to spend after all the expenses of running the Estate have been deducted). This will be made up of income from property inflation (i.e. the additional income derived from normal growth in rental values through rent reviews and lease renewals) and income from asset management activities. Any target should be stretching, achievable and better than the Council's cost inflation.



We agree that the current and proposed targets are relevant. We suggest that as you achieve a target (e.g. rent arrears at 5% rent roll) the target should then be increased/decreased as appropriate in order to drive continual improvement. We also suggest that in addition you should measure your average void periods with the objective of reducing that as low as possible.

We note that you have yet to decide on the actual targets.

## Recommendations

- I. That a three year net income target be set and adopted.
- II. That the suggested additional targets be set and adopted.
- III. That an additional average void period target be set and adopted.
- IV. That targets be reviewed annually with a view to achieving continual improvement.

## Work Streams

You have proposed the following work streams as required to build the strategy and deliver key objectives:

- *Review investment criteria for assessing potential acquisitions*
- *Develop asset management plans to inform decision making in assessing performance*
- *Disposal strategy (including the use of IRR's and risk assessments)*

We address these in turn.

## Investment acquisitions

You have proposed the acquisition of property investments as a way of increasing income and contributing to the rebalancing of the Estate through buying non-retail property. The Council is currently in an unusually advantageous position because it, like other Councils, is able to borrow 100% of the total acquisition costs at very low capital financing costs.

We understand from the strategy workshops that in order to maximise the net income (i.e. the difference between the rent received and the interest paid) a fixed term (interest only) loan might be secured with the expectation that the asset would be sold at the end of the loan term in order to repay the debt. The investment criteria would therefore need to address the commercial risks associated with having to sell at a particular time, whatever the market conditions at that time. We understand that further work is needed in order to establish the most appropriate method of funding and accounting treatment.

If the acquisition of property investments is to successfully contribute to income growth and a rebalancing of the Estate it is in our view essential that you are permitted to purchase beyond the BANES boundary. We say this because the stock of good quality non-retail investments in BANES is very limited. With industrial and distribution warehouse rents forecast to outperform retail by a significant margin over the next five years, we might well be recommending you to focus on these two sectors in addition to offices and other more niche sectors. There are likely to be significant opportunities to purchase non-retail investments in the adjoining Bristol area.

If advantage is to be taken of what may be a brief window of opportunity it is imperative that a decision is taken quickly on whether or not you are empowered to purchase property investments outside BANES, even if it is only in the Bristol area.



### **Asset management plans**

Asset Management Plans (AMP) are an essential component in the delivery of your strategic objectives and would range from strategic property sector plans (e.g. retail, office, industrial) through location specific plans (e.g. Milsom Street) to tactical property specific plans.

By way of example the Shaftesbury Estate in London, which owns a primarily retail estate in such locations as Carnaby Street, Covent Garden and China Town, achieved a net income growth of 6.3% (2014/15), an average vacancy rate of 2.6% (over 10 years) and a one month average re-letting period through a combination of:

- Creating distinctive retail and leisure destinations
- Working with tenants to promote locations
- Improving public realm
- Reconfiguring and improving space
- Establishing ownership clusters
- Adopting a range of challenging Key Performance Indicators (KPIs) which it aims to exceed every year in order to drive continual improvement

The Estate offers very similar opportunities for such initiatives and we have discussed with you the opportunity to raise rental tone through the introduction of premium/luxury brands in one location and the creation of a food hub in another location.

AMPs ensure that asset management initiatives are focussed and that property specific decisions can be made quickly within the context of wider objectives.

AMPs will inevitably be "cross-cutting". For example a decision regarding an above a shop office in Milsom Street would be influenced by your objectives for both your office stock and your objectives for Milsom Street, as well as your corporate objective to deliver housing through ADL.

There is a significant amount of work required to put the required AMPs in place. We have a concern that the appropriate level of resources may not be available to achieve this within a reasonable time frame. It would be sensible to identify a complete matrix of AMPs that need to be prepared in order to identify the level of appropriate resources required. Once the task has been scoped and the resources agreed, there should be a time-scaled programme which itself is subject to regular review.

Appreciating that AMPs will not be in place for all properties immediately, we suggest that AMPs are prepared whenever certain "trigger" events (e.g. lease renewal application to assign) occur.

### **Disposal strategy**

Within the Estate there are likely to be individual under performing assets which it would be prudent to sell in order to build a cash war chest for re-investment in better, preferably non retail, quality stock thus reducing management costs and achieving a re-balancing of the Estate. Alternatively advantage could be taken of opportunity purchases to consolidate your ownership.

This process can only start once your Estate objectives and targets are agreed and as soon as AMPs are in place for individual properties.

Appreciating that AMPs will not be in place for all properties immediately we suggest that you initially target those properties which you instinctively believe are under performing.



### **Recommendations**

- I. That a decision is made urgently on whether or not you are empowered to purchase property investments outside BANES, even if it is only in the Bristol area.
- II. That a comprehensive list of required AMPs is prepared, appropriate resources identified and a clear delivery timetable agreed.
- III. That a programme for disposing of assets deemed to be under performing is agreed.

### **Summary of Conclusions**

The recent strategy workshops represent a significant step forward towards the preparation and implementation of a comprehensive Estate strategy.

If advantage is to be taken of what may be a brief window of opportunity to increase net income and diversify the Estate through the acquisition of property investments, it is imperative that a decision is taken quickly on whether or not you are empowered to purchase property investments outside BANES, even if it is only in the Bristol area.

It is essential that an Estate Strategy is completed to ensure that existing income is protected and that additional income is extracted from the Estate through a range of measurable time-scaled achievable targets. These must be supported as soon as possible by a range of strategic and tactical AMPs.

There is much work to be done before a comprehensive Estate strategy is in place with comprehensive measurable time-scaled targets. We are concerned that additional suitably experienced resource is needed in the short and long term if the required step change is to be realised.

Yours sincerely

David Stubbs FRICS

RICS Registered Valuer

for and on behalf of BNP Paribas Real Estate

## RESOURCES PDS FORWARD PLAN

This Forward Plan lists all the items coming to the Panel over the next few months.

Inevitably, some of the published information may change; Government guidance recognises that the plan is a best assessment, at the time of publication, of anticipated decision making. The online Forward Plan is updated regularly and can be seen on the Council's website at:

<http://democracy.bathnes.gov.uk/mgPlansHome.aspx?bcr=1>

The Forward Plan demonstrates the Council's commitment to openness and participation in decision making. It assists the Panel in planning their input to policy formulation and development, and in reviewing the work of the Cabinet.

*Should you wish to make representations, please contact the report author or Michaela Gay, Democratic Services (01225 394411). A formal agenda will be issued 5 clear working days before the meeting.*

*Agenda papers can be inspected on the Council's website and at the Guildhall (Bath), Hollies (Midsomer Norton), Civic Centre (Keynsham) and at Bath Central, Keynsham and Midsomer Norton public libraries.*

Ref Date	Decision Maker/s	Title	Report Author Contact	Strategic Director Lead
<b>23RD NOVEMBER 2016</b>				
23 Nov 2016	Resources PDS	2016/17 Budget Monitoring and the Progress with Strategic Review Implementation	Tim Richens Tel: 01225 477468	Strategic Director - Resources
23 Nov 2016	Resources PDS	Commercial Estate	Richard Long, Derek Quilter Tel: 01225 477075, Tel: 01225 477739	Strategic Director - Resources
<b>30TH JANUARY 2017</b>				
10 Jan 2017	PHED PDS	Budget Report (title may change)	Tim Richens Tel: 01225 477468	Strategic Director - Place
16 Jan 2017	CTE PDS			
17 Jan 2017	CYP PDS			
23 Jan 2017	Resources PDS			Strategic Director - People
25 Jan 2017	HWSC			Strategic Director - Resources
<b>29TH MARCH 2017</b>				
<b>ITEMS TO BE SCHEDULED</b>				
	Resources PDS	Equalities and Performance Impacts of Strategic Spending Review	David Trethewey Tel: 01225 396353	Strategic Director - Resources



Ref Date	Decision Maker/s	Title	Report Author Contact	Strategic Director Lead
	Resources PDS	Digital Strategy - Annual Update	Angela Parratt Tel: 01225 396576	Strategic Director - Resources
The Forward Plan is administered by <b>DEMOCRATIC SERVICES</b> : Michaela Gay 01225 394411 Democratic_Services@bathnes.gov.uk				

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