

Report to: Audit Committee

Date of meeting: 18 November 2022

By: Chief Operating Officer

Title: Annual update on Property Investment Strategy

Purpose: To provide Audit Committee with an update on key Property work activities.

RECOMMENDATIONS

It is recommended for Audit Committee to:

- 1) note the contents of this report;
 - 2) consider, and recommend, any actions that should be taken in response to the contents of this report;
 - 3) identify any new or emerging items for consideration.
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1 Background

- 1.1 The County Council's strategic framework for its assets is set out in the Council's [Strategic Asset Plan 2020-2025](#).
- 1.2 The Audit Committee asked for an update on the strategy to be given at the November meeting, including coverage of the following specific areas:
 - i) The current position on the possibility to acquire commercial assets for income generation.
 - ii) Property workstreams supporting the Council's climate change agenda.
 - iii) An update on the Workstyles project.

2 Supporting Information

Surplus Assets

- 2.1 The Council has adopted a blended approach and has decided to focus on exploring whether properties can generate income when assets become surplus to operational requirements as well as considering capital receipts from disposals.
- 2.2 For example, Sackville House, Lewes is a site where 95% of the office has been let to generate a commercial income. Much effort has been spent to make the property more desirable while limiting the amount of funds that are spent on addressing maintenance and appearance issues. Altering the marketing strategy and creating spaces that appeal to new tenants help not only to generate rent but to reduce the Council's outgoings including non-domestic rates and maintenance costs.
- 2.3 Other examples of non-operational assets include Warwick House, Seaford and the former Egerton Children's Centre, Bexhill which have been let to different NHS trusts

to generate income and reduce holding costs. These agreements meet many of the Council's joint and partnership working objectives and help provide essential services for the people of East Sussex. Children's Services (CSD) properties on educational sites have also found new uses via private nurseries or, have been brought into bolster school accommodation.

- 2.4 Even more peripheral sites have seen a focus to help nullify costs and support services. East Sussex County Council (ESCC) have agreed terms with Education Training Consortium (ETC) Sussex, a charity endorsed by Adult Social Care (ASC), to utilise the former Day Centre which has otherwise limited potential use. In this case rent has been waived for an initial period to allow the charity to settle into the area. It can later be reviewed and placed at a more representative market rate. These agreements not only support local charities to support and complement ESCC frontline services but allow ESCC's standing service charges and business rates to be met via external funds.
- 2.5 Despite the above examples, disposals also remain an option for surplus assets. However, there are numerous challenges when seeking planning consents to maximise value or longer marketing campaigns. Vacant sites may end up being retained for longer than preferably desired which can lead to enhanced site security costs, managing intrusions and complaints from local people. Despite this, ESCC Property team also have a strong track record with disposing (freehold sale) of premises no longer fit for purpose or surplus to ESCC's requirements. For example, at the former Grove School, Hastings, the ESCC Property team oversaw the successful vacation and management of the former school site, concluding all associated s.77 and external funding compliance to ultimately generate a capital receipt of £7.9m for the authority.
- 2.6 More generally, managing all surplus assets is not without issues as even the occupied premises take a level of resource to market and regularise occupations. Further to this, tenants seek a level of service which requires both a building management and maintenance influence which involve costs and time. This can be difficult given current resourcing within the team particularly when the team has struggled to recruit in several roles.

Investment Acquisitions

- 2.7 The County Council concluded in 2021 not to follow the route of purchasing commercial assets to produce rental commercial income. The primary reason, at that time and which continues to be relevant today, was the significant uncertainty about some sectors of the commercial property markets following the pandemic. The commercial investment market was badly affected with uncertainty in the short and medium-term, with impacts on rents, yield returns and commercial tenants' ability to pay rents. Some improvement was seen in 2021 and early 2022. However, the war in Ukraine has affected a number of areas in the economy with increased inflation and cost of living impact. This has created some uncertainty in the commercial property markets currently in 2022. There is some robustness in limited commercial sectors, e.g. warehouses and industrial units, while sectors such as primary and secondary offices and retail high streets are having increased high void rates and yield performance has deteriorated. With many property owners noting a reduction in office demand, we have seen office premises turn to residential through permitted development (Ocean House). There may become a point where demand increases or remains stable, and the natural lack of supply drives up prices in this area meaning that a further review of this position may be warranted in due course.
- 2.8 As a reminder, the legislation context for local authorities acquiring commercial assets for income is set out in the Local Government Act 2003 and the Localism Act

2011. This legislation sought to encourage local authorities to adopt more commercial approaches. It is important to note that prior to the pandemic, some local authorities had acquired commercial assets within their localities, whilst others had invested in geographical areas which presented potential high rental income growth outside of their administration area. The majority of newly acquired commercial assets purchased by local authorities are partially, or fully funded by the Public Works Loans Board (PWLB).

- 2.9 The National Audit Office undertook a formal review in February 2020 in respect of Local Authority Investment in Commercial Properties. It found that several local authorities were exposed to significant financial and reputational risks. It showed that the commercial assets they had acquired would be badly impacted if there was a downturn in the economy. In November 2020, the PWLB consulted stakeholders about a proposed new approach for access to local authority loans for commercial asset acquisitions.
- 2.10 The National Audit Office report revised criteria for securing loans from the PWLB, including revised loan rates and increasing the breadth of information required within the business cases. The emphasis is now on wider regeneration benefits and housing outcomes. The PWLB remit has therefore been amended so a business case for a local authority to acquire commercial assets purely for rental income will be significantly harder to achieve.
- 2.11 At the current time there are no proposals to acquire commercial assets for rental income for the following reasons:
- i) There is uncertainty in the commercial property market on rental levels, voids and yield performance.
 - ii) There are other pressures on the Council's capital programme for investment in a wide range of projects and infrastructure
 - iii) Access to external funding e.g., the PWLB is more difficult and there would be an impact on the Council's Treasury Management policy.
- 2.12 The Council will continue to acquire assets/land for its operational delivery in relation to basic school need requirements and highway projects such as for Exceat Bridge.

Use of the Corporate Estate - Maximising the use of our assets

- 2.13 In a post-covid world, ESCC acted quickly to implement a 'Workstyles' programme where teams locally agree how many days a week their staff access the workplace via team agreements. ESCC have consequentially seen physical attendance to corporate premises reduce to around 1-2 days a week. With less pressure on these assets, it has enabled us to make adjustments to offices to both support the new hybrid ways of working (via additional booth spaces for example) and to reduce property usage. For example, the new Hastings office base will have approximately 40% less space than Ocean House which aligns with the asset rationalisation workstream in the Council's Asset Management Plan. We are also considering utilisation levels and potential adjustments across the rest of our estate, including at sites such as County Hall. These types of adjustments reduce carbon emissions, maintenance costs and general property outgoings (rent and business rates etc).
- 2.14 Such a seismic shift in working practices is not without tweaking, as changes and limitations become identified over time. Therefore, we acknowledge this area is still a work in progress and requires full engagement with services. To aid with the understanding of the individual team's approaches, a workstyles survey was

launched in October 2022 and its findings will help shape further refinements to this model.

Property Adjustments to Reduce Carbon

- 2.15 The County Council's Climate Emergency Action Plan 2020-22 sets out how the organisation intends to reduce its carbon emissions. It sets out the scale of the carbon footprint, describes the Council's carbon budget and includes a set of actions. In 2021-22 Cabinet agreed a further £9.9m to support the work to enable the Council to become carbon neutral.
- 2.16 The ESCC Property team work collaboratively with other Council colleagues to ensure its carbon emissions are reduced through energy efficient use of its assets and targeted capital investment. Property workstreams are tracked and monitored at the Climate Emergency and Capital Boards on a regular basis.
- 2.17 The following are some of the measures that the Council has delivered:
- i) Installed energy efficiency measures in ESCC buildings and street lighting using part of the additional £9.9m budget agreed by Cabinet and using the £1.025m Salix invest-to-save fund and County Council maintenance budgets. The Salix fund, for example, has been used with nearly 300 projects worth £3.8m, generating annual savings of over £850,000. Ten assets will benefit from LED investment in 2022/2023.
 - ii) Installed 1.4MW of renewable energy generation on buildings, with 26 on schools and 12 non-school sites which, in addition to reducing energy bills, generated a total income from the Renewable Heat Incentive and Feed In-Tariff of c. £8,000 in 2021-22. Over 1,077 solar panels were fitted in 2021/2022 as Phase 1, and Phase 2 will include a further capital investment for ten additional assets in 2022/2023.
 - iii) Whole building decarbonisation projects have been delivered at Ninfield School and Herstmonceux School in autumn 2022 using part external funding.
 - iv) Electricity for buildings and street lighting that is supplied from renewable sources, independently certified through the Renewable Energy Guarantees of Origin scheme (REGOs) has been purchased. This started in April 2020 and will continue, subject to availability and price. It applies to corporate sites and has been offered to schools. It should be noted that the purchase of green electricity is not counted towards the Council's carbon reduction target. It is not considered to be good practice, as it does not increase the investment in renewable energy generation.
 - v) The Council made a bid to the Department of Business, Energy and Industrial Strategy for Phase 3b decarbonisation funding for £1.3 million to part fund 6 full decarbonisation projects.

Community Assets

- 2.18 ESCC have many property assets supporting community use. Both the operational and non-operational portfolio allows for some of the main links to occur with community assets. This may take the form of adjacent locations such as Greenwich House in Peacehaven where ESCC neighbour with Peacehaven Town Council and share some aspects of maintenance and services. Others are direct operational

assets owned by the Council where they supply a single community use such as Hollington Community Centre or former libraries which now offer fully established community run facilities (Pevensey Bay, Willingdon and Ore Library etc). Premises such as the former Tilling Green School in Rye has now a long-established track record in providing charitable and community facilities in what is a surplus County Council asset.

- 2.19 There are also many operational sites with a primary purpose such as libraries, youth centres and children centres which support their main focus while having the opportunity to encourage ad-hoc community use. Opportunities are also explored where existing premises can support not only the current community uses (which may take place outside of operating hours) but can also meet the need for additional service requirements within the existing portfolio. Strong links with the community sector are developed and maintained and agreements are regularly issued to allow occupancy in Council buildings which help support community and charity groups throughout the County.

Use of Assets for Local Growth and Development

- 2.20 ESCC also has good working relationships with the Borough and District Councils across the County. There have been routine meetings as well as weekly exchanges via Strategic Property Asset Collaboration in East Sussex (SPACES) which aims to encourage joint working, asset sharing and acquisitions / disposals to support development hubs and local growth where targeted by Local Councils. Many of the resulting projects have created spaces utilised for housing or commercial premises which have created much needed housing or employment hubs. It may be possible to further look at our portfolio and see what extent it can support smaller pop-up businesses as well as larger schemes such as housing provision in the local area. We will continue to ensure strong links with our colleagues in Communities, Economy and Transport (CET) to acknowledge the key projects and aims where new investment and infrastructure can support additional growth in areas seeking change. Property assisted recently with the creation of the new Newhaven port access road, which is a clear example of the Council utilising its funding and land to generate new employment opportunities and investment hubs.

3 Conclusion and reasons for recommendations

- 3.1 Audit Committee are asked to note the contents of this report, consider and recommend any actions that should be taken in response to the contents and identify any new or emerging items for consideration.

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