APPENDIX 1

Asset Management

Strategy for a vibrant, sustainable commercial property estate

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Contents

1. Introduction

It would be difficult, perhaps impossible, to fully explain the rationale underlying the current configuration of the council's commercial property portfolio. The provision of local facilities in the course of major house building programmes from the 1950's onwards, together with jobs and industry initiatives in the 80's were certainly major contributors; as have been local government reform in the 1960's, the statutory vesting of assets from strategic bodies such as the GLC and LDDC and national and local Town & Country planning requirements.

In each case, the reasons for adding to the council's growing and diverse collection of commercial assets were perfectly clear at the time. However, a comprehensive planned approach underwritten by asset challenge and performance management throughout the portfolio – asking, respectively, why does the council need these assets, and what are they delivering - was consistently absent.

A little more understanding?

In many ways as the council presses forward with its ambitious plans to regenerate the borough, and to build new homes and schools, the significance of the commercial portfolio is often overlooked, if not entirely forgotten. Equally, and with good reason, the council has concentrated on achieving transformational efficiencies across its operational estate in recent years; particularly through the rationalising of its office buildings. This, rather than the commercial estate, has been the primary focus of the council's asset management planning.

Inevitably at a corporate level the commercial portfolio tends to be a not entirely comprehended quarter of the council's real property asset base.

Similarly, the expectations upon the estate, both outside the council and within it, are not always sufficiently well-defined to support consistent decision making; particularly in relation to premises occupied by the voluntary and community sector.

Nevertheless there are a number of positives regarding the portfolio as it stands today:

- The council has resolved that the portfolio is primarily held for income and let at market rents;
- It delivers gross revenues of £11.6 million per annum to the council's funds. In turn these are used to achieve corporate priorities;
- Governance arrangements for the portfolio and lead cabinet member responsibility for its performance is clear;
- As is responsibility for its management under the Director of Regeneration / Head of Property;
- The majority of the assets are owned freehold, introducing both flexibility and strategic potential to the management of the estate.
- The additional potential of the assets in supporting local businesses, and the third sector is also acknowledged

With these cornerstones as its starting point, this paper sets out the principles of a comprehensive strategy for the council's commercial portfolio, putting that portfolio firmly back on the corporate "map".

2. Summary & Action Plan

The estate

The council holds a diverse commercial estate, including shops, business premises and miscellaneous other assets. Although only about 12.5% by rental value of the assets concerned can realistically be described as investment properties they are all managed for income nevertheless. On current projections they will generate combined revenues of approximately £11.6 million in 2016/17, primarily to the benefit of the Housing Revenue Account.

The estate also fulfils certain non-financial objectives including providing local services and facilities. For example, the majority of the shops in the retail portfolio are in parades of 9 units or fewer and are strongly locality orientated, such as those on or near housing estates. The other area of note is in providing accommodation opportunities for the third sector.

Managing the portfolio

The council's overall vision for the borough is set out in the Council Plan. This overarching business plan describes how the London Borough of Southwark will deliver its vision of a "fairer future for all".

A more detailed but still high level framework for the use of resources is provided in the Medium Term Financial Strategy and the Corporate Asset Management Plan. Beneath these plans is a tier of more practically orientated implementation strategies, including this document in relation to the council's corporate property portfolio.

Lead corporate responsibility for the portfolio and its performance sits with the Cabinet Member for Finance Modernisation and Performance. The estate is managed by an in-house team within the Chief Executive's Department, under the Head of Property reporting to the Director of Regeneration.

2016/17 has seen much change in the team, with reorganisation and rationalisation of senior management. Recent audits have helped identify areas of practice and procedure warranting updating or improvement and implementation plans are in place to address these.

Further consideration is given to the portfolio on an asset class by asset class basis in section 10 of this report, with performance data Appended. It is useful to note that commercial property is highly regulated by statute and in particular landlord and tenant legislation which tends to be protective towards tenants.

VCS occupied premises

A good deal has changed since 2009 when we last looked in detail at the strategy for VCS premises.Accessing appropriate, affordable, fit-for-purpose buildings.in Southwark is a greater challenge today for the voluntary and community sector than ever before. Meanwhile public resources are increasingly limited and have many competing demands placed upon them, not just from the VCS, but across all sectors.

We need to be realistic about how this can happen in a sustainable way. There are opportunities for the Council to use its property portfolio and exert property-based influence to shape provision to the sector. For its part the VCS will need to run the premises it occupies as efficiently as possible, cutting costs where it can and exploring opportunities to share resources where co-location might bring about real financial and operating benefits. Flexibility, and a willingness to adapt to new ideas will be essential.

Rent policy and income

The estate is held primarily to generate income, with its management geared to this objective. Market rents are charged. Whilst it would be wrong to say that the council offers "cheap" rents, it does offer flexible terms and has a broad range of properties in its portfolio that are capable of yielding low incomes in their existing use. Above all, the council is a responsible and accountable landlord with procedures in place for the valuation and approval of the rents it sets.

To some degree the nature of the portfolio means it is insulated from the sharper rent movements and economic vulnerabilities seen in the institutional commercial property markets. Nevertheless there are some pressures on income that we can foresee, including transfers of assets into regeneration and house building initiatives, the changing nature of high streets and shopper behaviours, and landlord repairing cost liabilities for the council in the future.

Equally, there is scope also to obtain new assets from this source, through on- and offsite re-provision. The challenge here will be to achieve balance between securing new commercial space compared to other gains that might be realised in the course of redevelopment (new homes, cultural space, etc), and also between the existing accommodation / user base and that which follows. There are opportunities to increase incomes from non-traditional sources including advertising hoardings and telecommunications aerials, and options here are being actively explored.

Tackling debt

Whilst significant inroads have been made into the management of arrears in the commercial portfolio, core debt currently stands at £1.5 million, as at October 2016.

Activities are programmed, monitored and performance managed to ensure collection, intervention or write-off is being progressed on a case by case basis. In each case the approach needs to be consistent across the different professional staff involved in the process on the Council's part and progress is closely monitored.

A full suite of procedures reflecting good estate management practice and corporate standards for managing money are set out in internal guidance.

Modernising the letting process

Whilst turnover in the commercial estate tends to be fairly low, the letting of vacant units provides opportunities to establish current rent levels and adjust use mixes, to reflect local demand and the council's overarching and property specific objectives for a given parade, estate, etc. Equally, the prospect of change can be a concern to neighbouring tenants and local residents.

Therefore this area of activity in the commercial portfolio is a carefully managed one. Following from this review we will ensure that our procedures in new lettings are clear and communicated throughout the Property team. These cover preparing units to let, undertaking statutory checks on the building, marketing, tenant selection and lease completion. A new database is being implemented to help us manage the lettings process from point of instruction, through marketing, to completion.

In addition to rent reviews and lease renewals, tenancies at Will, periodic tenancies and licences are kept under review to ensure the rationale for their original grant continues to hold good and that other forms of tenure of terms of occupation would not be more appropriate.

Curating uses and the tenant mix

Tenant selection is generally determined on the basis of rental bid/premium offered, tenant's business strategy, ability to perform lessee / occupier obligations and local impacts arising from the proposed use of the premises.

The presence of incompatible uses in a given parade can individually, and more particularly in a cumulative way where these uses proliferate, have a disproportionate adverse impact on how a locality is perceived and local amenity. With this in mind, the Council agreed in June 2015 to exclude some uses entirely from its retail parades.

The line between nurturing the retail/commercial offer and influencing market operations less successfully is a fine one; especially so at a time when high streets are changing and their purpose is being re-evaluated more profoundly than at any time previously. Even so, there is scope for the Council to more actively curate uses and occupiers within its estate to encourage interesting, sustainable commercial enclaves and a vibrant economy.

It needs to be accepted that some, perhaps most, retail/commercial locations owned by the Council may not fit the letting scheme model. Equally, the presence of the necessary background conditions that make the approach workable will change over time and the potential for new schemes needs to be kept under review. However, as a starting point we propose to establish a pilot letting scheme based around Market Place and Southwark Park Road, SE16, consulting widely and at community level on preferred uses and developing a targeted marketing campaign.

Asset strategy & performance

The report concludes by looking across the commercial portfolio on an asset class by asset class basis and making recommendations for each. This is followed with a summary of performance indicators and reporting arrangements to support the sustainable management of a successful portfolio of commercial assets, looking in turn at financial performance indicators, strategy and management practices.

Implementation plan and monitoring delivery

Key Area	Critical Success Factors	Means of Delivery	Target
Estate strategy	Agree strategy for the management of the commercial property estate	Cabinet level approval for the strategy set out in this report	Q4 2016
	Review approach to premises occupied by the voluntary & community sector	Review and update principles agreed in 2009. Develop workstreams following from the strategic review of the relationship between the council and the third sector	Q1 2017
	A flexible approach to accommodating the VCS	Consideration of alternative to traditional lettings, e.g. management arrangements and transfer of long lease interests with rent offset etc. in respect of VCS lettings, where it is viable to do so and is demonstrated to represent Best Consideration	Ongoing
	Transparency in regards to accessibility and cost of premises	Formalisation of unlicenced occupation and outdated agreements	Ongoing
Managing the portfolio	Professional management of the commercial estate	Reorganisation of in-house estates team under single Head of Property	Q3 2016
		Recruitment to vacant posts in structure	Q4 2016
	Fit for purpose estate management systems	Modernisation of estate management system	To be confirmed – subject to corporate IT
		Ensure necessary disaster recovery systems & back up arrangements are in place - Head of property to liaise with corporate IT	
	Introduce appropriate processes and controls	Fulfil 2016 audit action plan	Q4 2016
	Ensure landlord **and** tenant obligations are fully discharged - programme of regular management inspections	A rolling programme of inspections, recording findings on a newly installed database generating any actions arising and approvals	Ongoing
Rent policy & income	Maintain rents at market levels	Realistic valuations for new lettings (allowing for competitive processes), at rent review and upon renewal.	Ongoing
	Monitoring of tenancies at will and other open ended forms of tenure to ensure opportunities to maximise income are fully considered	Monitor for a) continuation b) conversion to traditional forms of tenure	Monthly monitor
	Produce a written procedure in respect of setting, approving and monitoring rent	Section 6 of this Asset Management Plan provides the procedure	Q4 2016

Key Area	Critical Success Factors	Means of Delivery	Target
Tackling debt	Minimise rent arrears	Monthly reporting of debt on case-by-case basis to lead member for Finance, Modernisation and Performance and agree actions	Monthly meetings
	Manage and where necessary act on all commercial property debt, including recovery against current and former tenants where payment by agreement is not possible	Analysis and categorisation by risk of arrears Prioritisation of highest and longest term debt for recovery action Active management of new debt arising	Ongoing (and see above)
	Consistent and effective decision making	Maintain a detailed "Manage Debtors" procedure note to ensure consistency of action and decision making. To cover billing, interface, receipts, debt management, monitoring communication and reports, implementation of recovery action and write off procedures. Periodic sampling of debt cases to ensure procedures are complied with	Review every 6 months Monthly
Modernising the letting process	Manage landlord compliance obligations - ensure properties offered to let meet statutory requirements	Commission standard reports on all newly vacated premises and implement works as necessary. Seek to recruit buildings technical expertise to permanent staff with addition of building surveyor role to portfolio management team	Ongoing Q1 2017
	Clear letting procedures including due diligence arrangements around prospective tenant checks	Review existing documents and ensure available internally to all commercial property estate managers and lettings staff	Q1 2017
	Ensure transparent and auditable consideration of applications made	Full implementation of online lettings application system and back office database with detailed reporting	Q4 2016
	Effective market exposure of vacant property to let	Review existing approach as part of overall review of Property content on corporate webpages Use of specialist lettings advisors for non-standard / high rental value assets	Q1 2017 As required

	Monitoring and performance reporting for letting activity	Lettings activity to be included in monthly reports to the Cabinet Member for Finance, Modernisation and Performance	Monthly
Curating uses & the tenant mix	Fully explore local expectations and aspirations for the uses permitted in the council's retail premises Keep Competition Act considerations under review	Agree and introduce a pilot letting scheme for the Market Place and Southwark Park Road To consider in the drafting of agreements and development of further letting schemes.	Ongoing Ongoing
Asset strategy	Asset class by asset class strategy covering all properties in the portfolio Ensure consistency with other strategies	See Section 10 of this strategy Review portfolio for hidden homes / house buildings opportunities Develop workstreams following from VCS Strategy Economic Wellbeing Strategy	Case specific Ongoing

3.The Estate

An overview

The commercial tenanted, non-residential estate can be broadly divided into three components;

- the retail portfolio (shops);
- and business premises portfolio (studios, workshops, offices etc), and;
- a diverse group of miscellaneous properties and interests, ranging from advertising hoardings to former operational premises now let on a commercial basis.

Premises occupied by the Voluntary and Community Sector are a recognised subset within these main asset categories. There are acute pressures facing the VCS and these are discussed more fully later in this paper.

Why does the council have a commercial estate?

The primary reason the council holds an estate of commercial premises is to generate income. Inevitably for an organisation whose corporate objectives are so fundamentally embedded at local level, the assets also fulfil a number of other objectives such as supporting local businesses, services for residents and accommodating the voluntary and community sector.

Income remains the overarching objective, nevertheless and the revenues generated are used to fund the council's objectives. As a result the indicators we look to in measuring the success (or otherwise) of this portfolio are frequently financial ones, including gross rents and managing.

The retail portfolio

The 48 parades and 449 lock-up shops making up the tenanted retail estate generate an income of £4.33 million per annum. A more detailed breakdown is set out in Table 1, below. Just over a third of this is collected from the 100 shops in the three largest clusters; East Street, Southwark Park Road and Jamaica Road. The capital value is £41.4 million as at 1st April 2016.

The remaining shops are generally situated in smaller parades averaging less than 10 units each. Frequently they are located on or around housing estates and the services they provide are highly locality orientated. Several of the parades are in transition, pending redevelopment as part of larger schemes.

In property investment terms the best of the shops should be regarded as lower grade, characterised by non-central locations, limited income generation and rental growth potential, non-corporate tenants and higher levels of risk to income collection.

Geographically by investment category there is a fairly broad distribution of the different types throughout the borough. SE1 and SE17 tend to contain the most investment type assets (albeit still lower grade). SE17, along with SE15, also has the highest proportion of non-investment, locality orientated assets.

Structural shifts in the way high streets and local shops function are well documented. Whilst the "off pitch" and highly localised catchments of some of the parades in the Council's portfolio serves to insulate against this to a degree, there is no doubt that retailing practices have changed (and continue to do so), migrated to other channels and found new locations, both physical and virtual.

Even so, at present the majority of the council's shops are fully let, with the rent roll standing at 92% of the full Estimated Rental Value of the portfolio (the difference is due to some vacant units and historically set rents, pending rent review or lease renewal), subject to a churn of vacancies and new lettings at about 3% per annum.

In terms of new lettings in the region of 50% are to new businesses and all (irrespective of new or established business) are on market terms, including rent that the market would typically be prepared to offer.

Table 1: Overview of LBS's retail portfolio

Investment Category	Parades	Units	Avg. No. Units per Parade	Floor Area (m2)	Passing Rent for Group	Indicative Rents per Unit	Capital Value for Group
Locality/Transitional • Taplow, SE17 • Acorn Parade, SE15 • Seeley Drive, SE24 • Crossthwaite Ave, SE5 • Vestry Rd, SE5 • Sceaux Gardens, SE5 • Dunton Rd, SE1 • Woodwarde Rd SE24 • Maddock Way, SE17 • Commercial Way, SE15 • Mortlock Close, SE15 • Commercial Way, SE17 • Asylum Rd, SE15 • Old Kent Rd, SE15 • Northchurch, SE17	13	100	8	6754	£518,434	£3,000 To £10,000	£4.7 million
Intermediate • Southwark Park Rd, SE16 • Walworth Rd, SE17 • Market Place, SE16 • Old Kent Rd, SE1 • Wyndham Rd, SE5 • Jamaica Rd, SE16 • Harper Rd, SE1 • East St (part), SE17 • Albion St, SE16 • Great Suffolk St, SE1 • West Lane, SE16 • Jamaica Rd, SE16 • Dockhead, SE1 • Abbey St, SE1 • Camberwell Rd, SE5 • Peckham Park Rd, SE15 • Peckham Hill St, SE15 • Long Lane, SE1 • Redcross Way, SE1 • Peckham High St, SE15	21	228	11	16647	£2,029,067	£6,000 To £16,000	£19.7 million
Marginal Investment • Bartholomew St, SE1 • Southwark Park Rd, SE16 • Peckham High Street, SE15 • Camberwell Road, SE5 • Waterloo Road, SE1 • Pilgrimage St, SE1 • London Rd, SE1 • Lower Rd, SE16 • East St, SE17	14	121	9	6838	£1,787,710	£10,000 to £22,500	£17 million
Total	**48**	**449**	**9**	**30,238**	**£4,335,211**	**-**	**£41.4 million**
Top 3 Parades/Clusters by Size • East St, SE17 • Jamaica Rd, SE16 • Southwark Park Road, SE16	3	99	33	8985	£1,639,160	£12,000 to £22,500	£15.8 million

Note: the figures exclude standalone shops, including those with residential upper parts. There are currently just over 50 of these, contributing a further £0.5 million rental income per annum. As percentages:

Investment Category	Parades	Units	-	-	Passing Rent	-	Capital Value
Locality/Transitional	22%	22%	-	-	12%	-	11%
Intermediate	51%	55%	-	-	47%	-	48%
Investment Grade	27%	23%	-	-	41%	-	41%
Top 3 Parades/Clusters	22%	30%	-	-	38%	-	38%

Business premises

Industrial units, workshops and studios represent a diminishing element of the estate following policy shifts and a programme of sale and alternative use, the Council's own use and for new homes programmes including Southwark Regeneration in Partnership and Direct Delivery. Today the key holdings are Tower Workshops and Pullens Estate near the Elephant & Castle. The sale of a further estate, Dockley Road in SE16 has been agreed and is intended to complete before the end of the 2016/17 financial year.

Compared to private sector provision the Council's core offer of similar premises is relatively cheap and flexible lease terms are available. One consequence is that all the Council's business estates are fully let and are expected to remain so into the foreseeable future. High demand plus tightening supply elsewhere also means that tenants tend to stay and turnover is fairly light, although it needs to be acknowledged that this in itself may operate as an obstacle to company growth and close out newcomers.

The council has corporately pledged to see 500 new affordable business spaces in the borough by 2018. In most cases the creation of new units will help to realign supply to current expectations in terms of the quality and location. This corporate performance indicator is closely monitored and the means of achieving it will be the subject of a further report.

Other income generating assets

The retail and business premises portfolio makes up approximately 60 % by income of the total commercial portfolio. The remaining properties and interests are discussed on an asset class - by - asset class basis in the Asset Strategy considered in Section 9 of this paper.

At this stage it is useful to note the following investment grade assets which make significant revenue contributions (approximately 12.5% of total revenues from the estate), either individually or as discrete groups of assets.

The question whether they are true investment assets in a technical sense, i.e. used solely to earn rentals or for capital appreciation, or both, is possibly an academic one. The important point here is that the income streams they generate are commercially tradeable should the requirement to do so arise.

Also, although the council regards its HQ building at 160 Tooley Street primarily as an operational property, lettings to partner agencies generate income and this may be extended in lettings to third parties in the future.

Asset or Group	Income (pax)	Comments
Telecommunication Aerials	£420,000	A secure income with potential to grow at lease renewal and though the identification of new sites for the benefit, primarily, of the HRA.
Harmsworth Quay	£400,000	Ground rent on the former newspaper print works, now owned by British Land. Medium term expectation that the asset will be sold into the regeneration plan for the area. In the meantime an outstanding rent review is proceeding through arbitration, with scope for significant uplift and backdating to 2012.
Surrey Quays Shopping Centre	£269,000	A ground rent based on turnover. Future impact of Surrey Quays regeneration and a changing retailing market.
56 Southwark Bridge Road	£240,000	Centrally located office building with separate community use on part of ground floor
Advertising Hoardings	£150,000	Five hoardings currently. Scope for more sites to be established, particularly using more valuable digital installations. Discussions about extent of control over advertisement content and achieving balance between delivering corporate objectives and income generation.

4. Managing the Portfolio

Corporate context

The Council's overarching plan for the stewardship of its property assets is the Corporate Asset Management Plan (AMP). The AMP aligns the use of property assets to key corporate outcomes and with the Medium Term Resource Strategy.

It provides that the council will manage its tenanted premises to maximise income with regard to new lettings, rent review, lease renewal and minimising arrears of rent. The approach set out in the asset management plan for the commercial estate is consistent with these objectives. Last approved in 2010, an update is planned for 2017/18 to ensure the core objectives of the latest Council Plan are fully reflected.

Beneath the corporate asset plan sit several more detailed strategy documents with more explicitly operational objectives, including:

- This **Asset Management Plan for the Commercial Estate**;

- **Strategy for the Management of VCS Premises** - adding an additional level of detail in relation to Council owned premises occupied by VCS tenants. Geared at supporting the VCS within the framework of financial responsibilities and diminishing resources.

- **Asset Transfer Protocol** - a practical tool for considering alternatives to traditional lettings, where this will help to achieve asset outcomes that the Council acting alone may be unable to achieve.

The strategies may be further defined with specific policies agreed under Individual Decision Making, such as the policy to exclude undesirable uses (pay day loan shops, gambling uses, etc) from the estate for the general wellbeing of the community.

Governance & management

Corporate responsibility for asset management strategy generally, including that for the commercial portfolio, rests with the Cabinet Member for Finance Modernisation and Performance. In so doing, the portfolio's management is directly linked to the objective of ensuring sound business planning and financial probity within the council.

The strategic and operational management of the estate falls under the responsibility of the Director of Regeneration and Head of Property. The portfolio is managed in-house by Property Services, a team of Chartered Surveyors, plus administrative and business support. In terms of organisational structure the team is part of the council's Regeneration Division, which is in turn part of the Chief Executive's department.

The past year has seen a number of changes in how the estate is managed.

- A reorganisation of Property Services to bring all activity under the control of a single head of department, rather than two as had previously been the case. This has ensured a more cohesive basis for decision making about he commercial estate;

- Refreshed focus on managing debt and delivering income targets;

- New systems to support the letting process and also an expanded programme of property inspection to ensure landlord (and tenant) obligations are being observed e.g. compliance with occupier legislation, performance of lease covenants including on use, sub-letting, assignment etc.

The in-house team works solely on the council's behalf, bringing the additional benefits of a unique knowledge of the portfolio, how it might support the council's corporate objectives, and eliminates the possibility of conflict of interest issues arising where the same agent manages portfolios for one or more clients covering similar territories. It is worth stressing that officers can not give professional advice to tenants regarding their tenancies or in other property matters.

The cost of managing the estate, including estate management and strategy, audit, service charges, invoicing and collection, insurance, rent review, lease renewal and new lettings compares very favourably with external firms undertaking similar activities, where the charge to run a comparable range of professional activity will typically be in excess of 12.5% pa of the annual rent roll.

Managing performance

The Cabinet Member for Finance Modernisation and Performance and the Director of Regeneration receives regular monthly reports on the performance of the estate from the Head of Property. The reports provide a general update on the management of the estate and issues arising, and cover in detail all aspects of income, debt management, lettings activity and also disposals across the corporate portfolio as a whole.

In appendix 1 we have set out full details of performance arrangements for commercial estate, covering the development of asset strategy, the management of the estate and financial performance. Ongoing performance is generally examined on a time-series basis. However, we are seeking to identify suitable benchmarking sources against which performance can also be assessed.

Estate management systems

Property Services uses the Manhattan estate management system as its core database. The Regeneration Department uses a combination of SAP and Manhattan Property Management System to generate debtor invoices. Manhattan as a bespoke Property and Facilities Management system is treated as feeder to the Council's accounting system (SAP). To ensure accuracy and consistency the postings to and from Manhattan are reconciled on a monthly basis. The version of Manhattan used is outdated, to the extent of no longer being fully supported by the software developer concerned. A project to update the system is currently underway, subject to resources.

A central database is used to manage the estate and to generate all financial transactions and reporting. The same database drives rent invoicing through the council's corporate finance systems (SAP).

A set of modules has been developed to cover in more detail property inspection, lettings, rent review and lease renewal (additional modules are in development for disposals which will include any disposals from the commercial estate).

Earlier in the year (2016) our internal auditors recommended that a document management system should be used more robustly to ensure all key documents and key decisions are saved in one place. Also that key documents and correspondence needs to be retained and kept in the document filing system. In addition the Manhattan estate management system should be updated as soon as a lease or a transaction in respect of it is completed, and accurately reflect the lease document and any subsequent variations.

All recent key documents for the commercial estate are held centrally, with detailed information recorded in the council's non residential estate management system "Manhattan". All new agreements are recorded and stored accordingly. In each case where issues were identified by the auditors these related to historic agreements, some of which were 20 years older or more, and in some cases not originally granted by the council, where documentation was incomplete. Any anomalies identified are investigated and regularised as they arise.

Officers will continue to refine robust systems in operation for document management and maintain key tenancy data, including trigger dates for lease renewal, rent review, other rent transactions and buildings maintenance. Process checks to ensure the reliability of the data are outlined below.

Ensuring appropriate process controls

In their January 2016 report internal auditors RSM recommended that:

a) a documented, clear and transparent audit trail should be maintained if a decision has been taken to deviate from the council's policy to charge market rent;

b) circumstances and criteria under which a tenancy can be granted on a Tenancy at Will Basis is documented. All tenancies at will need to be proactively monitored to ensure that they meet the criteria and are replaced with full lease agreements where circumstances have changed.

The auditors returned this summer to undertake a further review of the management of the portfolio this summer. Concluding an amber / green level of assurance, they found that whilst controls employed in the management of the portfolio are suitably designed and consistently applied across many areas, action is nevertheless needed to strengthen the control framework to manage identified risks (income maximisation, fraud avoidance).

We have agreed a five point plan with the auditors to tackle the matters raised, and:

1. Ensure that the rationale for all new lettings and terms agreed is clear and fully documented. Over the past year Property has updated its systems for approving valuations for new lettings and other tenancy transactions, moving from a paper driven process to an end to end online one. The valuation, which fully explains the rationale for the rent set is approved by the case officer, his or her line manager and the head of property.

   In practice the auditors concerns were in relation to older agreements and more complex arrangements where rents appeared to be lower than expected, but on analysis of the full circumstances of the transaction could be demonstrated to represent the best rent obtainable at the time the transaction took place. This included long leases at a nominal rent where the council had received a premium at the commencement of the lease in consideration of the rent to be foregone.

2. Introduce process checks to confirm that new rent and lease terms have been entered onto the property management system database accurately. As mentioned above, all approvals and records are maintained electronically. Since the auditors visit a routine has been built to compare the respective data and generate an exception report for review by the head of property where a variance is found.

   We use the same approach to ensure that there is sufficient safeguarding in data entry and processing to ensure that unauthorised changes cannot be made. Here also any discrepancy between approved data and that held in the Manhattan system will generate an exception. The systems themselves contain a full audit trail to a key stroke level for investigation purposes.

3. Produce a written procedure in respect of setting, approving and monitoring rent (details are contained in section 5 of this Asset Management Plan)

4. Formally document the circumstances and criteria by which a Tenancy at Will is granted (see Section 8)

5. Ensure that disaster recovery and backup arrangements are put in place and documented and are sufficiently robust across Property's business critical systems.

5. VCS occupied premises

The voluntary & community sector makes a significant and evolving contribution to the overall wellbeing of the borough. In so doing it can help the Council achieve its corporate objectives. However, scarcity of accommodation makes operating in London a difficult and expensive proposition for the sector.

Rising costs in a tightening financial environment have placed many organisations in an uncertain position, fuelling the challenge to do things better, differently and affordably.

Premises

The VCS "estate" consists of a wide range of property types, locations, states of repair and tenants. As a result the terms on which these assets are occupied also tend to be quite diverse and rents and lease terms are often not readily comparable. Terms are individually negotiated for each. In some cases the rent settled on the asset will be low because this is all the property will support in the market.

Whilst the variety of property the sector occupies is diverse, the assets involved share some common characteristics and for the purposes of this paper the estate can broadly be defined as follows:

- Properties whose use is restricted to community use through legal implements such as covenants;
- Properties which the council has historically reserved for use by the VCS which are let to a single VCS tenant;
- Properties which the council has historically reserved for use by the VCS which are divided into units and let to multiple tenants.
- Properties held in the commercial estate which have been let to VCS tenants which will return to the commercial estate when the tenancy ends.

Assets may move in and out of the list of premises occupied by the sector as circumstances and overall asset strategy directs. A main exclusion from the asset group are tenant and resident halls, which are managed by Housing & Community Services ancillary to the housing function. Even so, there is scope to look at how these sometimes under-used assets can be more extensively used for wider community benefit.

Being transparent about the leases we grant

A new strategy looking at how the council, NHS Southwark Clinical Commissioning Group and the VCS can most effectively work together was approved by Cabinet in October 2016. This provides the basis for a series of workstreams to advance the utilisation of premises by the sector.

A key part of the challenge ahead will be to understand how the council and agencies such as Community Southwark can work together to support and improve the operating environment for VCS organisations, by encouraging the effective use of premises.

Currently the council lets premises to approximately 70 VCS agencies (these figures do not include the numerous tenant and resident halls available across the council's residential estates). All are either properties which the council has reserved for use by the VCS or part of the council's general commercial letting stock held to generate income.

The type of premises these groups occupy vary considerably. As a result the terms on which the properties are occupied also tend to be quite diverse. Rents and lease terms are often not readily comparable and it is probably fair to say that this has been the source of consternation and confusion over the years.

To help move on from here, and gain insightful perspectives on the estate, we are sharing with Community Southwark information about Council premises occupied by the VCS, and the basis on which they occupy, to help establish a clearer picture of how organisations can best be supported to manage financially and to utilise and share premises, and to see how current provision compares to new and emerging demand.

… and clear about the rents we charge

The over-riding principal remains that market rent is charged. Where it wishes to support the occupying organisation this is achieved through grant aid, rather than renting at an undervalue. A key advantage of this approach has been that support is applied only for as long as the funding department or a relevant external agency deems it appropriate to do so, and the tenant receiving this support continues to deliver the community benefits warranting it.

Leases and Landlord and Tenant law are less agile in this respect. One consequence of this has been that some tenants remain in premises under historic agreements at low or negligible rents; long after the Council might wish to support them. This operates to eliminate opportunities for income, to exclude prospective tenants who may have more to contribute or better compliment corporate objectives, and leads to perceptions of unequal treatment.

We will continue with the programme of bringing leases let on historic and sometimes ambiguous terms in line with current expectations and charging policies. However, we will also look closely at examples of best practice in other authorities and how they approach leasing to the VCS to explore what lessons learned might be portable to Southwark's premises.

Information about premises

One clear message we took away from VCS strategy review workshops, held over the summer of 2016, was the sector's recurrent frustration at accessing information about premises. This included difficulties around both the availability of space to occupy and the knowledge base of occupiers in the sector when it came to managing buildings and discharging tenant responsibilities, particularly around health and safety.

Community Southwark has previously recommended that the council should bring together various existing advice in a single place by publishing a clear, easy to read document on its website to outline policies on rate relief, lease terms, rents (including rent subsidy and rent free periods), asset transfer and assets of community value.

In addition there may be an "easy win" in setting up a readily accessible database of premises requirements and availability, to link up organisations in need of accommodation with potential providers.

Therefore we will look with the council's Communities Division at ways to improve the availability of information about premises, in terms of the council's buildings and across the sector.

Managing the assets

Following from the above we believe there is a real desire across the sector, particularly amongst new and smaller organisations, to build knowledge about running the buildings they occupy.

There are escalating pressures on occupiers and landlords to ensure that their premises comply with an expanding range of statutory requirements arising from health and safety considerations; inevitably with a corresponding price tag (and potentially serious liabilities for non-compliance). Therefore it will be worth bearing in mind from the outset that property "costs" are not just about the rent. Total occupation costs can include service charges, business rates, servicing debt, utility costs, repair and maintenance, insurance and management. All of these areas of expenditure need to be efficiently managed, to contain the potential operating pressures they can otherwise give rise to.

Again with Communities Division we will look at how the council can support the sector in understanding how best to manage the potentially costly property assets they use and prevent them becoming an unmanageable drain on the dwindling resources that might otherwise be channelled into delivering services.

Facilitating supply

We want to ensure that the Council's property portfolio is deployed as effectively as possible and seek to accommodate more organisations – particularly in underused buildings, on a temporary basis pending redevelopment, and where there is scope to share space. Transparency and consistency in the leases agreed will also be important considerations.

Whilst the council is far from being the only landlord in the market nor even necessarily the landlord of choice for the VCS, it does have an important role to play in helping to understand gaps in the market and facilitating provision. Examples:

- The transformative benefits of the council's ambitious regeneration programmes are clear to see. Nevertheless they may be accompanied by a net loss of the types of premises that have traditionally accommodated the VCS. We will explore how planning obligations can be used to enable the sector to access affordable, fit for purpose premises in new build developments whilst acknowledging the competing demands on this source (and its dependency on an active housing market).

- Identifying and promoting co-location opportunities for VCS organisations to further develop neighbourhood and thematic clusters of interest.

- Exploring ways in which non-residential premises on housing estates can be used to benefit local voluntary and community organisations.

- Brokering voluntary sector access to public premises, across as wide a range of operating partners as possible, where co-location may be an option. In particular to ensure that the council and NHS's, property portfolio is effectively deployed to realise opportunities to share premises.

- Exploring opportunities to use parks, open spaces, schools, underused public buildings, empty properties and other community spaces, such as tenants and residents halls, community hubs and faith buildings more creatively.

Asset transfer

Finally in some cases the preferred way forward may be to release buildings, or a significant degree of control over them to help lever in additional benefits that conventional leasing might not achieve for the council.

A policy is in place for consideration of management agreements, asset transfer, etc and the VCS review will encourage the further use of these approaches where the right conditions exist to do so:

http://moderngov.southwark.gov.uk/documents/s32533/Appendix%201%20Asset%20Transfer%20Pack.pdf

6. Rent Policy & Income

Market Rents from a Responsible Landlord

At the beginning of the financial year 2016/17 Southwark Council's Property team managed rents in charge of £11.6 million per annum, collected from over 2,000 income generating assets. This is a sizeable undertaking; and the revenues generated an increasingly important source of funding to the council's operations and the pursuit of its priorities, including the funding of grants (see below).

The council's rent policy is to charge market rents, consistently and without concession. Therefore, a commercial position is adopted in all cases, allowing for the characteristics and location of the properties and the lease terms on which they are let.

The same is true across all commercial asset classes, including premises let to the Voluntary and Community Sector. It is worth emphasising that following from the market rent principle the council does not offer concessionary rents to tenants. Where it wishes to support particular tenants or groups it does so in an entirely transparent way through the award of grants.

So, is it "cheap"?

It is helpful to put aside the idea that council rents are necessarily "cheap" compared to those charged by other landlords. This is not the case; although they do often reflect the rather more diverse nature of the assets the council holds, compared to a typical landlord in the private sector. The properties simply will not yield any higher rent.

However, the primary advantage of renting council premises is the assurance of having a responsible, accountable landlord; but one that runs its portfolio on sound commercial principles nevertheless. Above all a pragmatic approach is taken to the management of the estate, advancing a suite of related principles geared at ensuring:

- Diversity of compatible uses to achieve sustainable, vibrant shopping parades (acknowledging that there may be some competition between individual tenants even so);
- Exclusion of undesirable uses irrespective of their rental potential including payday lenders and betting shops;
- Investment in assets e.g. shopping parade improvement programmes, where there is an economic / community case to do so;
- A fair and transparent reflection of costs passed on through service charges for management and works to structure and common parts, etc where this is provided for in leases;
- Achieving statutory compliance in the context of the Landlord and Tenant relationship and obligations.

In commercial terms the rent policy is both effective and efficiently managed. The portfolio exhibits a low proportion of void properties, gradual increases are obtained at lease renewal, rent review and in new lettings. Income and arrears are discussed in more detail below. More detail about the performance of the portfolio, including income is provided in Appendix 1.

Flexibility

More flexible lease terms than might normally be offered "in the market" are frequently available with a view to reconciling and accommodating the above objectives. Examples include:

- Phased rents, increasing step by step in predictable amounts;
- Alternatively the substitution of index linked (CPI, RPI, etc.) for traditional rent review mechanisms – removing the uncertainty and potential fees entailed in the process;
- Rents payable monthly rather than quarterly;
- Lease restructure

Change in rents charged

Property agreements by their nature entail long term commitments. Consequently tenants occupying today may do so under a contract drawn up 20 or more years ago, at a rent that was determined under very different market conditions and subject to periodic review.

In each case the detail of the contracts reflect a specific deal negotiated between the parties at the point it was struck, having regard to market and a variety of other factors at that time. Nevertheless, the process today is a transparent one. Properties are let on market terms including rents, without hidden concessions to distort that market basis, determined by reference to transactional evidence. Lease terms are agreed according to best practice and the Landlord & Tenant law prevailing at the time the lease is entered into.

Almost inevitably tenants in the same parade, for example, may find themselves occupying similar premises on different terms.

Even so, it is not the case that rent fluctuations when they occur are automatically reflected throughout the entire portfolio or parts of it. This would be contractually unfounded, administratively unviable and would impact on net incomes received in terms of additional transaction costs. Whilst tenants might welcome the benefit of adjustments in a falling market, it is unlikely that the same could be said in times of rising rental levels. Acknowledging these factors, change generally takes place incrementally as local markets dictate at rent review, lease renewal (see below) or in new lettings.

Setting the rents

The commercial estate consists of a wide range of property types, locations, states of repair and tenants/uses. As a result the terms on which different assets are let also tend to be quite diverse and leases and rents charged are often not readily comparable.

Terms are individually negotiated for each by professional surveyors having regard to a range of considerations (see below) and transactional evidence from the property market. In the vast majority of cases, negotiations are concluded locally between the parties. This may involve the tenants employing professional representation. Where the parties can't agree, leases contain third party dispute resolution clauses (expert witness or arbitrator) which can be invoked in the event of an impasse.

The main, but by no means exclusive, variables considered in determining the rent (or licence fee) are:

Factor	Variables
Economic	• Transaction Date • Prevailing Market Conditions • Other occupation costs (service charges, NNDR etc)
Property	• Location • Size • Quality / condition of accommodation & facilities • Asset strategy considerations
Legal	• Type of tenure (lease, licence, etc.) • Security of tenure • Length of lease (or licence) • User Clause • Other lease terms & restrictions • Headlease obligations (where the property is leased by the Council) • Repair, maintenance and compliance obligations

For example, in some cases the relatively basic nature of the properties being let means that, without any subsidy or concession the rent settled on the asset will be low because this is all the property will support in the market.

Elsewhere, particularly around regeneration schemes, temporary "caretaking" occupations by the VCS may help to keep premises secured or otherwise reduce holding costs, and these tangible benefits are reflected in rents charged.

Finally, the transaction date is a key consideration. The market and rent change over time, as does best practice on lease terms. As a result two largely identical shops in the same parade.

Safeguarding commercial data

As a result of the above, making realistic comparisons between one tenancy and another requires careful analysis of all the facts and circumstances of the letting.

The data is potentially commercially sensitive with potential to create downwards pressures on rents and additional costs in regeneration schemes. In addition some of the data refers to private individuals who are commercial tenants rather than firms, and its release may conflict with the requirements of the data Protection Act.

Therefore data about rent and lease terms is not released on a general basis other that where the council is required to do so by law, or where it may wish to do so on a confidential basis to partner organisations. Where appropriate we share data with partner agencies on a confidential basis where this will help to provide strategic perspective on the estate or aspects of it, such as in the review of the voluntary and community sector currently taking place.

The council complies with central governments “Open Data” policy requirements by already publishing data about premises including commercial properties, excluding lease terms.

Valuation and reporting procedure

Rent pricing, taking into account the factors identified above, is a complex area and one that warrants and receives scrutiny. In the last year alone it has been the subject of two audits.

Following from the work with auditors we have developed our procedures for setting rents, and the systems we use to ensure a consistent, auditable approvals process.

The question of rental value is one of professional opinion and judgement. In all rental valuation matters we have full regard to the professional guidance set out in the Royal Institution of Chartered Surveyors Valuation Standards (the “Red Book”).

To ensure consistency of approach all rental valuations are prepared using a standard form of report. The report is created, completed and approved electronically. It is submitted by the valuer and subject to two levels of approval, firstly by a principal surveyor and then by the Head of Property.

The report, the approvals process and details of the valuation and evidence supporting it are all retained in the system (thereby being available as evidence in subsequent valuations).

Therefore a clear and transparent audit trail is recorded throughout the process. If a decision has been taken to deviate in any from the council’s policy to charge market rents (where the income is capitalised in a premium for example) this is fully explained.

Rent review and lease renewal

As with new lettings, rent reviews and lease renewals provide the opportunity to adjust rents to market levels where it is appropriate to do so.

Both programmes are driven by data held in our estate management systems which records the dates for all lease renewals and rent reviews in order that trigger dates for any notices required and the opportunity to maximise the rent if there is an economic opportunity to do so is not missed.

Generally the council’s leases provide for rent review every five years, although some long leases (typically 50 years+) granted at a premium (a one off capital payment in lieu of a periodic rent) will not include a review clause and the first opportunity to reconsider the rent will be at the end of the lease. Some leases may be considerably shorter, with lease renewals every three years or effectively on a flexible basis where the tenancy can be determined at any time (tenancies at will, for example).

The considerations at play in rent pricing for new lettings and those for, respectively, lease renewals and rent reviews can differ. This is particularly the case at rent review where the drafting of rent review clauses and extensive case law may require various hypothetical assumptions to be made about the property, how it can be used and the terms on which it can be let.

Nevertheless the principle remains the same; that in all cases the council seeks to obtain the maximum financial return from its assets and negotiations at lease renewal and rent review are conducted accordingly.

In view of the complexities in these areas of professional practice, a single Principal Surveyor reporting to the Head of Property leads on managing the rent review and lease renewal programmes. Information from other renewals, reviews and new lettings provides rental evidence in determining the new rents.

7. Tackling Debt

In the year to September 2016 quarter end debt in the commercial portfolio has fluctuated between £1.9 and £2.4 million. The figure is made up of rent owed on both current and terminated accounts.

Whilst this represents a marked improvement on the previous twelve months, when the figure exceeded £3 million at one point, and follows a concerted campaign with full commitment from officers and members, a renewed programme is now called for and activities need to be programmed, managed and monitored to ensure collection, intervention or other action is being progressed to drive the debt down further.

The starting point has been to look realistically and responsively at long-entrenched debts in the portfolio, where in previous years there had been hesitancy to institute action for various and frequently complex reasons. Together the handful of cases in this category accounted for nearly 10% of all current tenant debt.

Commercial rent debt analysed

Some analysis is needed to understand how the total debt figure is made up and the degree of financial risk it represents.

57% of all debt (about £1.2 million) is transitory in nature, whilst banking and accounting transactions are completed. This includes money held in suspense accounts pending allocation due to payment queries and processing, which in the last year has reduced from a peak of £1.2 million to approximately £765,000.

A further 3% of the debt relates to funded groups where grants are outstanding and arrangements are underway to ensure payment.

The core debt of money at risk refers to unpaid rent on live accounts where tenancies are continuing. Currently this stands at £455,000 (21% of all debt, or approximately 4% of rent in charge). It is this element that needs to be regarded as highest risk and therefore is the focus for our rent recovery actions.

Finally, 20% of the monies owing relate to terminated accounts, typically where premises have been repossessed for non-payment of rent. The opportunity of recovery is fully examined and where there is scope to do so further action is instituted. In some cases (in the order of 5% - 10%) it is concluded that there is no realistic prospect of collection and steps are taken to formally write these amounts off as bad debt.

Managing debt

In each case the approach needs to be consistent across the different professional staff involved in the process on the Council's part. High level participation in regular debt meetings with managing surveyors is part of this.

A full suite of procedures reflecting good estate management practice and corporate standards for managing money are set out in an internal document entitled "Commercial Rents – Managing Debtors Procedures" dated 1st April 2015.

Periodic sampling of recovery cases is undertaken to ensure consistent handling or, where pragmatism calls for departure from procedure, the actions and decision making is agreed and documented.

8. Modernising the Letting Process

Letting vacant units provides opportunities to establish current rent levels and adjust use mixes, to reflect local demand and the council's overarching and property specific objectives for a given parade, estate, etc. Equally, the prospect of change can be a concern to neighbouring tenants and local residents.

Ultimately it is in all parties' interests that a vacant property is re-let as quickly and effectively, other than where premises are held vacant as part of a wider programme; typically in the context of regeneration projects or pending disposal with vacant possession. By this stage the properties concerned are likely in any event to be regarded as surplus assets, rather than continuing to form part of the commercial portfolio.

Therefore this area of activity in the commercial portfolio is a carefully managed one, with processes and monitoring arrangements in place. Its main elements of estate strategy, marketing, tenant selection and administration are considered in more depth below.

Overview of the letting process

The letting process is managed within the Portfolio Management Team. Individual surveyors undertake all relevant professional work. They are supported by a dedicated lettings surveyor who runs processing, marketing, co-ordinating application papers, etc.

Procedures for new lettings are set down in an internal practice note covering:

- Termination Instructions;
- Dealing with void premises;
- Internal management of lettings activity, including review meetings;
- Marketing including viewings;
- The application process, and;
- Tenant selection.

Prior to re-letting vacant properties are assessed for condition, basic standards of statutory compliance etc. This is both to ensure the Council is not exposed to risk and liability as the owner letting the building and to streamline the progress of the lettings process by eliminating unforeseen building issues from subsequent stages.

A number of reports are arranged by the Lettings Administrator prior to marketing. These include EPC, Asbestos Report, Electrical Installation Report, A Buildings Regulations Compliance (Fire Safety) Certificate and a gas installation certificate if applicable.

Where additional works are required these are specified and commissioned to bring premises up to a compliant shell condition prior to re-letting and the completion of any new lease.

Details of properties to let are published on the Council's website. The website also provides general information about letting a property and explains the procedure for applying. Agents may be engaged to deal with the marketing of high rent or specialist premises.

Premises currently to let:

http://www.southwark.gov.uk/directory/13/find_properties_to_let/category/77

Interested parties complete a Standard Application Form online after they have viewed the property. The decision about which tenant should be selected is with the estate manager based on the tenant's business proposal for the premises, references, rent, proposed use and compatibility etc – see below under "Curating uses and the tenant mix". The estate manager will prepare a short form of report explaining the rationale for his or her decision, identifying all offers received and provides this, along with all applications received, to the Principal Surveyor for approval.

As at September 2016 we are in the final stages of introducing a new system to assist the process. This draws together all the information about applications in a single place, to assist the decision making and to ensure it is fully reportable and auditable. As it is a new system we will keep progress under review.

Tenancies at will and criteria for their use

In some cases a Tenancy at Will may be used rather than a full lease. The use of these agreements is consistent with the Corporate Asset Management Plan, which provides for flexibility in the approach taken. In particular Tenancies at Will:

- Confer minimal rights on the tenant whilst allowing the landlord considerable flexibility;
- Are open-ended i.e. with no end date,
- Are based on a standard form of agreement requiring no further input from lawyers, which may take some time depending on the parties involved in the transaction and complexity of the case;
- Can be terminated with immediate notice.
- Are cheap and easy to prepare and simple to administer

The council's estate managers will use a Tenancy at Will where one or more of the following criteria is met pending the grant of a full lease:

- The Council is enabled to generate revenue quickly;
- Vacant units can be brought back into use in advance of the formalities for a full lease being completed;
- It is otherwise desirable for tenants to enter the property sooner (if at risk); where fitting out is to take place, for example;
- There are issues with the tenant to tenancy which need to be resolved before it is appropriate to enter into a full lease which would confer greater protection upon the tenant;
- To test out new initiatives in the retail environment without burdening either side with a full lease, in the case of "pop-up" shops etc.

Therefore the grant of a Tenancy at Will, guided by the above criteria is a matter of judgement depending on the circumstances of the asset, the proposed tenant and the objectives to be realised through the letting. Any course of estate management action, including the choice of occupation agreement, is approved through a scheme of delegation, with a clear and transparent audit trail maintained to justify the decision.

All such tenancies are recorded in the council's estate management system database and monitored to ensure they continue to meet the criteria and are replaced with full lease where circumstances have changed. As at Septemebr 2016 the portfolio included 34 Tenancies at Will. Where the rationale for their grant continues to hold good, 17 of these are continuing. 12 are to be replaced by full leases subject to negotiation and completion of legal formalities. The other 5 remain under review.

Periodic tenancies and licences are similarly kept under review to ensure the arrangements do not become open ended or are no longer appropriate.

9. Curating uses & the tenant mix

Tenant selection

Although uses, particularly in retail parades, have always been carefully managed, the priority has been the maximisation of income. However this can have a negative impact on the sustainability of the investment over medium to long term, with parades being dominated by a limited range of competing businesses, but not always addressing the wider needs of the local community. In time this can lead to regular business failure, void shop units and loss of rent.

Although maximisation of incomes must still be a priority, consideration is given to the following when considering a new letting (or assignment or application for a change of use):

- Tenant mix
- Vibrant and sustainable shopping locations supporting independent trades
- Protection of neighbourhood character
- Regeneration aspirations
- Local services to communities

Consequently the criteria generally applied when deciding to grant tenancies are:

- Rental bid/premium offered;
- Tenant's business strategy;
- Ability to perform lessee/occupier obligations
- Local impacts

The objective is successful parades meeting local needs with local traders as well as maximising the investment value of the parade.

In the wider context the council's shopping parades need to be viewed in terms of supporting choice, local economy, entrepreneurship, community and influencing sense of place. The presence of incompatible uses in a given parade can individually, and more particularly in a cumulative way where these uses proliferate, have a disproportionate adverse impact on how a locality is perceived and local amenity. As the Department for Communities and Local Government's 2012 report "Parades to be Proud Of" explains, "Parades of shops have a strong link to their communities and form an integral element of local 'place' (the sentiment is strongly mirrored in the new VCS strategy).

Uses the council won't accept

With the above in mind, the Council agreed in June 2015 to exclude some uses entirely from its retail parades:

- Payday loan shops and associated financial services (excluding not for profit co-operatives whose purpose is to provide affordable financial services for members of the local community)
- Betting & gambling shops
- Amusement arcades

And on a discretionary basis:

- Pawnbrokers where pawnbroking is the primary or constitutes a substantial part of the business conducted from the premises (excluding jeweller's businesses where pawnbroking is conducted ancillary to the main use)

The schedule of prohibited uses is kept under review by the Director of Regeneration and may be altered and added to from time to time. Much of the initial attention has been on activities that take money out of the local economy. One area that is likely to become the focus of further attention is the promotion of healthy high streets and uses that promote healthy lifestyles.

Towards a more curated estate

The line between nurturing the retail/commercial offer and influencing market operations less successfully is a fine one; especially so at a time when high streets are changing and their purpose is being re-evaluated more profoundly than at any time previously.

Even so, there is scope for the Council to more actively curate uses and occupiers within its estate to encourage interesting, sustainable commercial enclaves and a vibrant economy.

Granted, the most accomplished interlopers in this respect, such as the Crown Estate on Regent

Street and Howard de Walden Estates in Marylebone do have the benefit of some rather different subject matter and locational advantages to engage with. However, like these landed estates the Council shares a long term interest, and on this basis it is possible to borrow from the principles of the curated approach the key players have employed to bring about transformational change in their own estates over the last couple of decades.

Whilst the more immediate benefits might accrue to the locality, the long term commercial gain to the landlord of creating places where people want to shop, work and rent premises can be expected to satisfy the Best Value / Best Consideration requirements that the Council will need to demonstrate.

Refreshing our approach

Where we believe the necessary conditions for doing so are present, we propose an approach where we will:

- Consult widely and at community level to identify preferred uses in the locality;
- Undertake a time-limited marketing campaign geared at attracting the preferred uses;
- In the absence of viable bids coming forward go to wider market;
- Consider the use of "pop-up" enterprises to test new ideas and use proposals in a lower-risk way.

As a starting point both the Council and the community will need to be realistic about what the choices are, and the places where Lettings Schemes are most likely to be successful. The background conditions we believe will be needed to achieve this are:

- The Council is the sole or dominant landlord of the immediate retail/commercial units and therefore potentially can exert greater influence over use considerations in the locality, compared to locations where that ownership is more fragmented.
- The assets are not part of a wider regeneration programme but may be in areas in transition at the periphery of such schemes where significant consequential change can be anticipated;
- Complimentary initiatives are already present in the locality, such as Business Improvement Districts, retail environment investment schemes, etc
- There is expected to be a high degree of community interest in the outcome.

A Pilot lettings scheme – the "Blue" & Southwark Park Road

It needs to be accepted that some, perhaps most, retail/commercial locations owned by the Council may not fit the letting scheme model. Equally, the presence of the necessary background conditions that make the approach workable will change over time and the potential for new schemes needs to be kept under review.

However, as a starting point we propose to establish a pilot letting scheme based around Market Place and Southwark Park Road, SE16. This fulfils our selection criteria in that:

- The Council is the dominant retail/commercial owner;
- The estate is outside any direct regeneration scheme, but nevertheless in an area that is seeing nearby schemes lever in significant change , which can reasonably be expected to continue;
- In 2014 the Blue Bermondsey Business Association secured Business Improvement District status, to increase profile and funding to the area, in which the community takes a keen interest.

Statutory controls on use – planning update

On 8th September 2015 Planning Committee approved an immediate Article 4 Direction, withdrawing the permitted development rights for change of use from of A1 (shops) to A2 (financial and professional services) in 4 town centre protected shopping frontages.

The 4 town centres affected are Walworth Road, Peckham (Rye Lane), Camberwell (Denmark Hill) and Lordship Lane. In practice few of the Council's retail premises are affected:

- 46-66 (even) Peckham High Street
- 358-374 (even) Walworth Road
- 3-23 (odd) Camberwell Church Street
- 8-24 (even) Lordship Lane

Two existing Article 4 Directions continue to be applicable and these withdraw the following permitted development rights in Southwark's protected shopping frontages:

- A change from classes A3 (restaurants and cafes), A4 (drinking establishments) and A5 (hot food takeaways) to A2 (financial and professional services);

- Temporary changes of use for up to 2 years from classes A1 (shops), A2 (financial and professional services), A3 (restaurants and cafes) and class B1 (business) from uses falling within use classes A1 (shops), A2 (financial and professional services), A3 (restaurants and cafes), A4 (drinking establishments), A5 (hot food takeaways), B1 (business), D1 (non-residential institutions) and D2 (assembly and leisure)

These two Article 4 Directions relate to all 48 of Southwark's protected shopping frontages which are listed in the Southwark Plan 2007. The Borough's town centres and shopping frontages are reviewed in the New Southwark Plan Preferred Option.

Before leaving the question of uses it is worth being aware that restrictive user clauses have been considered in the context of the Competition Act 1998. We are tracking developments in case law and may adapt our approach in drafting leases and bringing forward lettings schemes that encourage economic development and benefit consumers accordingly.

Improving the retail environment

There are opportunities for the council to improve its retail estate in the course of regeneration and, outside the areas these more comprehensive schemes overlook, through modest and proportionate investment.

A number of projects and pilots to improve the retail environment have been completed or are in the pipeline at Jamaica Road, Nunhead, Queens Road, Meeting House Lane and Brayards Road. The following are in the pipeline, with schemes for Camberwell Road and Peckham station also under consideration:

- Tower Bridge Road – looking at interventions along the street, draft brief to be drawn up;
- Lower Road – with British Land who also have proposals to work with traders – brief to be issued in October;
- Harper Road – working with Public Realm looking at parking issues initially;
- East Street – working with GLA High Street fund to deliver a combined project;
- Walworth Road South – with Public Realm who have proposals for improvements to the southern end. Currently approaching the traders in our properties

The works include new shop fronts, street scene improvements, waste management, branding / profile enhancements, and tackling some inevitable issues identified once on site such as building defects and inappropriate alterations to buildings.

Where there is an opportunity to do so we aim to bring forward this investment in conjunction with other initiatives including refurbishment to bring vacant units up to an acceptable standard where necessary to bring about an element of additionality in the overall outcomes.

10. Asset Strategy

Objectives & detailed proposals, asset-class-by-asset-class assessment

Appendix I: Performance

1. Managing financial performance

KEY AREA EXAMINED	MEASURING	INDICATOR	BASELINE 2015/16	PROJECTION 2016/17	PROJECTION 2017/18	REPORT TO	PERIOD	NOTES
Rent policy & income	Commercial income generated by the estate	Total rent, service charges etc. collectable from the commercial estate	£12.3m pax	£11.6m pax	£12.2m pax	Cabinet Member Finance, Modernisation & Performance	Monthly	Decrease in rent in charge 2015/16 – 2016/17 due to loss of income from E&C advertising and from lettings to third parties at 160 Tooley Street
	Additions to income through rent review	Number of reviews completed	50	50	50			Reviews to be completed or approved "nil increase" where market dictates
	Effective handling of high value and high complexity rent reviews	Agreement of new rent and completion of rent review memorandum	N/A	Completion of key reviews - see note	Case Specific			Harmsworth Quay, Barnwell House, Dockley Road (council as tenant)
	Addition to income through lease renewal	Number of renewals completed	60	60	60			Renewals to be completed or approved "holding over" where market / strategy dictates
Tackling debt	Efficiency of rent collection and recovery processes	Core debt at year end	£1.7m	£1.5m	£1.25m			Additional detail provided in monthly income/debt reporting corporately and to Cabinet Member for Finance & Resources.
		Sampling of cases to ensure debtor procedures complied with	-	5%	5%		Quarterly	

2. Developing our asset / portfolio strategy

KEY AREA EXAMINED	MEASURING	INDICATOR	2016/17	2017/18	REPORT TO	NOTES
The estate (strategy)	Asset Strategy embedded throughout the commercial property portfolio	Agreement of this paper under Member Independent Decision Making	Report Q4 2016	Review after 6 months	Cabinet	Review 2017
	Supply of affordable Business & Creative Space	Agree approach and monitor progress	-	Report Q1 2017	Cabinet	Note that the majority of projects for delivery are outside Property teams immediate influence
	Policy for the VCS occupied estate	Develop premises workstreams from wider VCS review	Report Q4 2016	-	TBC	A broader review examining the council's relationship with the third sector was reported to Cabinet in October.
Modernising the letting process / curating uses	Efficiency of lettings processes	Complete implementation of lettings system	Testing Q4 2016	Full implementation Q2 2017	Cabinet Member Finance, Modernisation & Performance	To include procedure notes on tenant selection / due diligence processes
	Lettings policy	Explore feasibility of pilot lettings scheme for "the Blue"	Q3/4 2016	Review after 6 months		With potential for wider roll-out
		Consider approach to "healthy" socially cohesive use of council assets - advertising	Report Q1 2017	-	TBC	-

3. Managing the portfolio

KEY AREA EXAMINED	MEASURING	INDICATOR	BASELINE 2015/16	TARGET 2016/17	REPORT TO
Management & Compliance Inspections	Efficiency of estate management function, proper discharge of tenant and landlord obligations in relation to commercial leases	Put in place a simple IT solution to assist management inspections, recording and monitoring based on portfolio manager's requirements	September 2015	Full implementation April 2017	Head of Property
		Programme of inspections built into estate manager's workplans	80	100	Head of Property
Lease Terms	Reflecting current best practice and policy requirements in legal contracts	Review current lease documentation	April 2015	April 2017	Head of Property
Voids	Portfolio "health check" - are the policies and income strategies working? Efficiency of letting process.	Short term, transitional vacant premises in course of re-letting	4%	<3%	Cabinet Member Finance, Modernisation & Performance
		Long term voids	1%	1%	
Systems	Adequacy of estate management systems	Ensure necessary disaster recovery systems & back up arrangements are in place	-	March 2017	Head of Property to liaise with Head of IT

Performance Data

ASSET GROUP	COMMENTARY	ASSETS IN GROUP	CURRENT RENT PASSING PAX HRA	CURRENT RENT PASSING PAX GF	OBJECTIVE	PROPOSALS	PROJECTED GROSS INCOME PAX WITHIN 3 YEARS	PROJECTED CAPITAL OVER NEXT 3 YEARS – RECEIPTS OR EXPENDITURE (sales will extinguish the corresponding income stream)
AERIALS Telecoms aerials, generally on high rise residential blocks	• MV typically in the region of £15k per installation depending on coverage • Majority of existing tenancies subject to review/renewal by 2018 • Currently requires agreement at Housing Office level - unpopular option • Future losses to regeneration schemes – Chiltern, Taplow	31	**£420,000**	**-**	• Increase income by licencing additional locations. There is immediate demand for five new sites in the north of the borough.	• Progress rent reviews and lease renewals as they become due (Subject to consultancy advice) • Maintain commercial stance on new installations subject to consultation • Consider scope for new installations in regeneration schemes and other new build development • Specialist consultancy advice on rents to be obtained and discussion on other potential sites	**£1,450,000** • 10% uplift + £1 million new income if five new sites can be agreed subject to consultation. • A number of sensitivities at play may limit what is achievable	**£50,000** Subject to expansion of the portfolio there is scope for a series of one-off premiums on new installations. Interests saleable in event of call on capital
ADVERTSING HOARDINGS	• Removal of the E&C hoardings, welcomed or otherwise, has removed £400,000 of income over the last year	5	**£150,000**	**-**	• Maximise income by exploring opportunities for new / enhanced installations • Ensure corporate restrictions are fully observed	• Consider potential for new, high income, digital installations	**£200,000** • Review in light of Health and Well being board recommendations and restrictions	**£0** Interests saleable in event of call on capital

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SHOPS	**1) Lock up shops** • Generally in small parades of 10 or fewer units geared towards local provision on or around housing estates. Some larger clusters – East Street, Jamaica Road etc • A fairly even distribution of reviews/renewals for all leases over the next 5 years • Some historic reviews outstanding – may be fully rented already and no scope for uplift • Losses to regeneration schemes – Taplow, Northchurch (but temporary affordable business uses) • GF Assets include Hopton Street shops (several reviews due 2016/17)	410 HRA 8 GF	**£4,600,000**	**£61,000**	• Retain for income • Ensure discharge of landlord obligations including statutory compliance • Consider development opportunities	• Continue policies of active management, income collection, rent review, renewal etc • Holistic approach to management of more concentrated parades (East Street, Jamaica Road, Southwark Park Road etc) • Review letting process and closely monitor – turnaround times acknowledging various stages involved in process • Review low density, standalone parades on potentially underutilised sites for release to sale/development – consider single storey units in Long Lane and Great Suffolk Street • Minor investment in strategic shop fronts at Hopton Street	**£5,000,000** c. 5% uplift should be achievable in an improving market, without jeopardising viable businesses already in occupation but acknowledging also the likelihood of some tenant turnover as arrears of rent are addressed. Note potential for repairing and compliance obligations to erode income.	**£0**
	2) Shops with Residential Upper Parts • May be mixed in parades (Albion Street, Evelina Road, Jamaica Road, Nunhead Lane), although LBS ownership typically fragmented. • All leases subject to review/renewal within 5 years	42	**£480,000**	**-**	-	• On vacation of any shops with residential upper parts review against receipts programme requirements for potential disposal.	**£530,000** • See above	**£250,000** • Assumes some ad hoc releases from the estate,subject to business case
PETROL STATION	• Old Kent Road • Now car wash & flats – latter considered under residential, below	1	**£40,000**	**-**	Retain for income	• Potential disposal. • Potential in Old Kent Road regeneration	**£40,000**	**£0** Interests saleable in event of call on capital

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INVESTMENT GRADE ASSETS	Although few in number, individually they generate significant incomes.	**Surrey Quays Shopping Centre, SE16** Council is freeholder and has let on a long lease at a turnover rent	**-**	**£269,000**	• Retain for income in medium term • Will be included in the wider Surrey Quays regeneration in the medium to long term – terms under negotiation	• Note turnover rent potentially diminishing due to adverse impacts of anticipated development / regen (running down) and competition	**£270,000**	As part of the wider Surrey Quays regeneration
		Harmsworth Quays, SE16	**-**	**£400,000**	Progress negotiations/arbitration. Anticipate completion Q1 2017	• Rent review to be settled, with expectation of significant uplift in income.	**£1,000,000+** NB – excludes backdating to review date	**£0**
		56 Southwark Bridge Road, SE1	**-**	**£240,000**	Retain for income	• Occupation arrangement to be finalised regarding community use of part of ground floor	**£240,000**	The outcome of the rent review will inform wider commercial deal on disposal
		Generally	**-**	**-**	Retain for income	Consider further acquisitions through: a) S106 negotiation (Blackfriars Road) etc b) Finite opportunities in LBS regeneration programme	**-**	Interests saleable in event of call on capital
BUSINESS AND INDUSTRIAL PREMISES Studios, workshops, industrial units, office buildings	• Tower Workshops Riley Road, SE1	45 units – approx.. 50,000 sq.ft in a central location	**-**	**£431,000**	• To be kept under review in view of a) increasing pressures on small business space, b) strong potential for income in existing use and, c) capital appreciation in alternative use	• Hold for income / income growth potential in short to medium term • Full options appraisal to be developed	**£475,000** (without investment) • Potential for rental uplift in view of scarcity of other accommodation, subject to investment in light-touch updating of external and common parts and rebranding • Expenditure on works c. £50,000	**£0** Saleable. Regeneration potential.

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	• Dockley Road Industrial Estate, SE16 (leasehold interest)	11	**-**	**£73,000** (after deduction of head rent)	• Regeneration potential (Bermondsey Spa)	• Conclude outstanding headlease rent review • Approval for regeneration scheme disposal	**£50,000** (after deduction of higher head rent after review)	**disposal expected in year 2016/17**
	• Pullens Estate, SE17 Note – a significant number of leases are on 15 year RPI terms	70	**£622,000**	**-**	• Hold for income • Requires investment to deal with fire separation and protection – project to get underway mid-2016	• Retain and keep under review in view of a) increasing pressures on small business space, b) strong potential for income in existing use	**£650,000**	**£0** Expenditure on works c. £450,000 Saleable (long lease basis in view of integration with residential estate) in event of call on capital
	• 5/5a Westminster Bridge Road, SE1				• Decision required whether to sell or hold. There appear to be compelling arguments for the former stance.	• Appraise options including sale. • High operating costs / landlord liabilities around repairs • Disproportionate holding costs compared to income while estate is retained		
	• Sandgate Street Industrial Estate, SE15 (lease and leaseback arrangement)	11	**-**	**£93,000** after deduction of headrent	For the time being the estate is predominantly occupied by the Council for occupation purposes.	• Under consideration as part of a separate Depots Review. • May be potential for sale/redevelopment, having regard to the lease and leaseback tenurial structure.		
	• Braganza Street / Kennington Workshops, SE1		**??**	**£30,000**	Building is only partly let pending redevelopment	• Progress sale / redevelopment	**N/A**	Under consideration for Southwark Regeneration in Partnership Scheme
	• Sojourner Truth Centre, Sumner Road, SE15	24	**-**	**£75,000**	To review	• Exclusively a Voluntary & Community Sector occupied asset, to be considered as part of a wider review of this sub-set of the commercial portfolio.	**£75,000** Subject to review	Subject to review

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	• Others (includes Rockingham Street arches and Astbury Road)	11	**£140,000**	**-**	-	• Manage for income		
LAND Sites not held for sale/surplus	• Includes Walworth Garden Farm • Review/renewal due on all but two low-rent assets in next five years	14	**£15,000**	**-**		• Miscellaneous land holdings such as these exert a disproportionate burden on management time and repairing costs, compared to income	**£15,000**	**£0** Subject to review
OFFICES	• Rent reviews / renewals due for all except a few low-rent, long leases within the next five years	9	**£120,000**	**-**	• Hold for income	• Continue to manage with regard to overall portfolio objectives	**£150,000**	**£0**
COMMUNITY CENTRES AND HALLS	• Let to third parties on commercial terms • Aylesbury regeneration will replace some existing facilities with new assets	8	**£322,000**	**-**	• To review	• Exclusively a Voluntary & Community Sector occupied asset, to be considered as part of a wider review of this sub-set of the commercial portfolio	**£322,000** Subject to review	Subject to review
NURSERIES	• Let to third parties i.e. not LBS operational use	3	**£52,000**	**-**	• Hold for income	• Continue to manage with regard to overall portfolio objectives	**£60,000**	**£0**
SURGERIES AND HEALTH CENTRES	• Includes Aylesbury Health centre to be reprovided	11	**£315,000**	**-**	• Hold for income	• Continue to manage with regard to overall portfolio objectives	**350,000**	**£0**
CAR PARKS etc.	• Includes Copeland Road Bus Garage	2	**£183,000**	**-**	• Hold for income	• Hold for income	**£200,000**	**£0**
ELECTRICITY SUB STATIONS	• Traditionally let on very low rents • Not actively reviewed until 2015 – work in progress	144	**£1,023**	**-**	• Maximisation of a highly secure income stream • Ensure development is not frustrated by long term, indeterminable interests	• Reviews, renewals and new lettings to modern rent levels. Consultants advising. • "Lift & shift" provisons in 60 – year industry standard leases	**£25,000**	**£0**

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OTHER TENANTED NON-RESIDENTIAL ASSETS	• Miscellaneous – allotments, garden and other land, garages • Excluding nominal value wayleaves and easements)	14	**£18,600**	**-**	Consider agreement of "hands-off" management/lease obligations with tenants – in particular shift of repairing obligations	• Miscellaneous land holdings such as these exert a disproportionate burden on management time and repairing costs, compared to income • Continue on tick over basis. Some allotment sites may provide sale/development opportunities and this will be kept under review, but accompanied by need for re-provision.	**£20,000**	0
RESIDENTIAL	• Private housing and third party provision • Hostels & Miscellaneous (excluding ground rents)	7	**£115,000**	**-**	• Hold for income	• Continue to manage with regard to overall portfolio objectives	**£125,000**	**£0** Interests saleable in event of call on capital
PUBLIC HOUSES	• Mostly let on long leases • Typically 20-30 years unexpired at low rents • Exception is 186 Tooley Street at c.£63,000 pax due for review in 2015	14	**£65,000**	**-**	• Main emphasis is on a good outcome to the 2015 review for 186 Tooley Street.	• Advisors instructed in the review. • Potential for sale to tenant.	**£75,000**	