



# ASSET

## NEWQUAY-10







# ASSET

PROFESSIONAL PAPERS FROM THE

## ACES PRESIDENTIAL CONFERENCE

NEWQUAY, SEPTEMBER 2010



Sunset view from the conference hotel

# ACES

## The Association

ACES, the Association of Chief Estates Surveyors and Property Managers in the Public Sector, represents the chief estates and property management professionals in the public sector throughout the UK.

The Association was formed in 1986 with the amalgamation of two long-standing bodies, ALAVES, the Association of Local Authority Valuers and Estates Surveyors (founded in 1949), and CLAVA, the County Valuers and Land Agents Association, (founded in 1908). Until 1995 the amalgamated Association operated under the name of LAVA, the Local Authority Valuers' Association.

## Membership

Membership of ACES is open to the senior estates surveyors and property managers from each local authority or other public sector organisation.

## Meetings

ACES has a very active branch structure with branches covering the whole of England, Scotland and Wales. There is also a Rural Branch for those members involved in rural property management or the work of County Councils.

Most of the work of the Association is carried on in the regular Branch meetings held around the country. At a national level there are usually two professional conferences each year and an Annual Meeting. The occasional Study Days on major topics are also open to non-members of the Association.

## Publications

ACES has a full programme of publications of professional interest to the public sector surveyor. The yearbook "Per Annum" contains up-to-date contact information for all members. "The Terrier" is the Association's regular journal and is published quarterly. Each year, there are also usually two editions of "Asset" containing professional papers compiled from ACES conferences and dealing with the latest issues.

## Government liaison

One of the primary roles of ACES is liaison with central government and this is carried out through a variety of means, both informal and formal, such as the DCLG/ACES Working Party and the Valuation Liaison Group.

## Further information and website

Further information on the Association and on membership can be obtained from the ACES Secretary at the address on this page or by visiting the ACES website at [www.aces.org.uk](http://www.aces.org.uk).

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## The Publication

This edition of "ASSET" is a compilation of edited transcripts of the verbal presentations, including overheads, given at the ACES meeting in Newquay in September, 2010. Some are formal briefing papers: others are more informal and conversational in style.

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## Thanks

ACES would like to record the Association's gratitude to DTZ, Atrium Software, and DVS whose generous sponsorship made it possible to produce this edition of ASSET.



Thanks also go to our other conference sponsor who supported the Newquay conference, CBRE.

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## THE AUTHOR:

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He is a senior executive with extensive experience of both the public and private sectors and has been a client, adviser and provider at the highest levels in public sector outsourcing and partnerships.

His early career was with Bexley, Kent and Westminster Councils and with Price Waterhouse. In 1997 he was appointed Chief Executive of the City of Newcastle upon Tyne leaving in 2001 to be the founder Chief Executive of Agilisys, the e government company. This was followed by spells as a senior director at three large outsourcing companies - Enterprise, BT and Serco.

Kevin has had non-executive board positions with Northumbria University and the Housing Corporation

## WHAT A LOCAL AUTHORITY WANTS FROM ITS PROPERTY ASSETS

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THE LESSONS

ACES Presidential Conference  
Newquay, September 2010

ACES Paper No 10.09/1 by

**KEVIN LAVERY**

Chief Executive, Cornwall Council

# BIG CORNWALL

We have a positive future vision for our area. It is Big Cornwall taken, of course, from "Big Society". We are lucky in Cornwall to have

- A strong financial position
- Good levels of reserves
- Low capital borrowing
- We have barely scratched the surface of what is possible in terms of improving efficiency and
- We are lucky because we have got 7 organisations coming together into one and there are lots of synergies from that.

## Message Number 1

We believe we can deliver 30% efficiency dividends. I can illustrate this with two examples.

The first is a property one. In our new organisation we have more workspaces than staff. When I say that to public sector colleagues they usually titter, but it is true of most of them too. I have worked in a number of public sector organisations where, when you walk round the office, there are loads of empty desks. In New County Hall alone a survey showed the utilisation level of workspaces was 40%. We have too many buildings, too many workspaces, and old-fashioned ways of working, so there is massive potential to develop modern working and rationalise buildings.

The second example is waste services. We are a new unitary authority and we still have some relics from our district based past. We have 6 separate waste collection contracts with 6 separate and different specifications and 6 different providers. It does not need the Brain of Britain to work out that if you have 1 specification and 1 provider, then very big efficiency gains flow from that.

## Future Investment

We are confident that we can deliver the 30% gain, and more, especially if we join up public service with health, police and other public service bodies. If we can go beyond 30% and effectively create a profit in the revenue account, we can use that to reinvest in Cornwall. If we are able to generate £30 million annual saving to reinvest in Cornwall our dream is to create a £1 billion investment programme for Cornwall, without any red tape, and as we already have substantial investment programmes from Europe, if you put those two together you are talking about a future £2 billion vision. This is four times the size of the regional growth fund the Government just announced for England.

## Double Devolution

We also want to see double devolution in Cornwall. We want to run our own affairs much more and be much less

interference from Whitehall and, equally, where we are not the best organisation to do that, we are happy to pass identified responsibilities down to other local councils, voluntary bodies or community groups to manage it on our behalf. I can illustrate double devolution in Cornwall with a simple example. The Highways Agency runs and maintains the A30 and A38 and our ambition is to take that off their hands, and to put money into upgrades to benefit the broader economy. One of the problems we have at the moment is that the Highways Agency says that it is not their job as they just look after the highway from a transportation perspective. But what we want to do is to improve Cornwall as a whole and make it safer and to consider what role the A30 and the A38 can play. Another of our problems is that although we have many development opportunities in Camborne, Pool and Redruth, all too often development is stopped because of insufficient road capacity. Under the planning arrangements the next development has to pay for the complete upgrade of that part of the highway and of course it does not happen. We believe these should not be the decisions of a national agency. We, Cornwall, should be able to decide what the speed limits are and whether, for example, we lower speed limits to increase road capacity. And if it is necessary to make decisions about the appropriate levels of taxation and betterment that should apply to a particular development, then that should be a local decision and not be a national decision. There is an opportunity to look at the highways as part of our whole place rather than just something for transport.

## Delivering Big Cornwall

To realise the Big Cornwall vision we have to bring about a fundamental change in the culture, approach and mindset of Cornwall Council. We must to move away from thinking of ourselves as a big district council, and think of ourselves as a small regional state government with the job of looking after all the public services in Cornwall. And we must move away too from thinking that we have to deliver all the services ourselves and into being a commissioner and finding the best deliverer for that service. Finally we have got to stop centralising things and start devolving things a lot more.

## Property: a Driver for Change

I hope it is obvious from the first part of this paper that property will be expected to play a major role in achieving our vision for Cornwall. We are already doing some small but significant things and some big things. One of the first things I did when I joined Cornwall Council was to give up my palatial office, as did the leader, and we now sit in modern open plan accommodation. Chief officers, cabinet members and our support staff all work together in open plan accommodation with a significant space saving. It is a small thing, but very powerful symbolically, when we are in a situation where we have more workspaces than staff, to say, "We already do it. We expect you to do it next".

Also we are putting some foundation work here such as preparation for our future plans, ie -

- Metering all our major buildings,

- Preparing a full asset register of what we own
- Developing some major plans to improve our future carbon footprint including renewable energy.
- Setting up a series of one-stop shops in our major towns.

We are well into a series of plans to rationalise some of our bigger office buildings. Currently we are going through a modernisation programme of new County Hall having just done Sedgemoor in St Austell and a large office in the Camborne area. This work, in those 3 buildings, impacts on about 2000 staff.

We have a plan, agreed by the Cabinet in September 2010, to rationalise our office accommodation from 78 to 30 offices. This will produce significant savings. And that is only just the beginning because next we will look at all our operational properties. There are about 4,000 such buildings to deal with so progress to date is only just scratching the surface.

## The Future

We have a very big plan for reducing the Council's carbon footprint, including a bid for a Cornwall-wide electric car scheme, and a proposal going through now for a council owned solar power farm in Newquay. Plans are also being made for five more in Cornwall owned by the Council, and that is in addition to the literally hundreds of enquiries we are getting from developers. Cornwall happens to be the best place for geothermal, the best place for ground source heat, and the best place for wind and for wave power. In fact a major wave farm is now working, finally, off the coast at Carbis Bay.

## The Lessons

Exciting opportunities but there are some issues.

Property cannot act in isolation; it is essential that property continues to be part of the corporate vision. It is vital to join up all of the leaders of change, one of which is the physical asset, but of course culture and technology have to in there too. Our biggest challenge is that we can do all the building things, but can we get people to work in a modern way? That is going to be the biggest challenge.

Public perceptions. One issue that we have had to deal with on a regular basis is the question, "Why are you investing millions in modernising your office stock, when you could be putting that into education or social services?" The answer is, "They are capital investments that produce very big revenue savings that help avoid making cuts in education and social services." This is something that even some councillors find hard to understand let alone the general public. So there is a public perception issue and challenge.

There are issues with local councillors and communities being too parochial. It is absolutely essential to reorganise our office estate in an efficient way, especially with a 30% reduction in government grant due, but local people do try to hang on to their office in their community, even though it is not relevant to the service they receive. The Council has to have a commercial approach. It needs to be hard nosed; what

are the return and pay back periods for investments? We are living in a world where we are going to have a 2 to 4 year financial crisis so I am not interested in plans which have very long pay back periods but only in plans that pay back really quickly. In my opinion you do need a commercial approach to achieve that.

## Summary

1. The future is certainly going to be difficult, and challenging, but also full of opportunities. I would like to leave you with four messages.
2. In these difficult times I think it is important to have a positive approach. In Cornwall we believe we have a clear vision about what we are trying to do.
3. Strong leadership is important.
4. Do things early. We have been trying to tell the politicians that if you spread cuts over 4 years there is an obvious political problem as you will have cuts next to the local elections in 2013 and the general election, if the Coalition lasts, in 2014. There will also be the managerial problem of major cuts every year, which just undermines morale, and you will also have finance problems. If you have to get £10 million out of a service over 4 years you could spread the misery equally over each year or, if you are brave and courageous, you could say we are going to make the maximum cuts up front in year 1. This, and explaining it to local politicians, is a bit of a challenge, but it is the right thing to do.
5. My final message is do we have a choice in facing up to this financial crisis? Do we want to manage the crisis or is the crisis going to manage us?

Kevin Lavery  
Chief Executive, Cornwall Council

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# ASSET



## THE AUTHOR:

Robert Peto MA FRICS is President of The Royal Institution of Chartered Surveyors and Vice Chairman, Capital Markets, at DTZ, a global real estate consultant quoted on the London Stock Exchange employing some 10,000 people worldwide. For 9 years to 2008, he was Chairman of DTZ UK and a member of the Board of DTZ Holdings Plc.

Robert is a member of the Bank of England Property Advisory Group, which provides the Bank with authoritative insights into the real estate sector to assist strategic decision making on, for example, interest rate policy. He is an internationally recognised expert in valuation standards and practice, and has chaired the RICS Valuation Standards Board, RICS International Valuation Professional Group and the RICS/Investment Property Forum Working Party on Calculation of Investment Worth.

He has had wide experience within DTZ as a General Practice and Investment Surveyor covering Strategic Property Advice, Fund Management, Acquisition and Disposal of Investment Property, Asset Management, Landlord & Tenant relations and Lease Restructuring, Development Management and Valuations. He ran the Middle Eastern Office from 1983 to 1986.

## THE ROLE OF RICS IN A PERIOD OF (CONSIDERABLE) CHANGE

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ENVIRONMENTAL ISSUES AND SUSTAINABILITY

PROVISION OF SKILLS AND MOBILITY

THE RICS

ACES Presidential Conference  
Newquay, September 2010

ACES Paper No 10.09/2 by

### ROBERT PETO

President, The Royal Institution  
of Chartered Surveyors

# INTRODUCTION

In preparing material for this paper I looked again at the Audit Commission Report, Room For Improvement, Strategic Asset Management in Local Government, of June 2009 and even though, the Audit Commission itself is now going to be axed, I thought it was worth looking at the Report Summary again as it spells out what councils should do, that is: -

- Improve their knowledge of their estates and their partner's estates
- Identify areas for improvement
- Review properties holdings and reduce them wherever possible
- Motivate Service Managers who occupy property to use it more economically
- Develop the capacity needed to bring about change
- Collaborate with local partners
- Seek opportunities presented by recession

And on that final point this is something we are all going to have to do because one thing is for sure, there is no new money for anything in the foreseeable future. At RICS headquarters we have had a policy for about 10 years now of talking to Government at both political and at civil service level. The clear feedback we are getting is that whatever new proposal is made, if it does not have a pay back in 1 or 2 years Government will not even consider it. Hence our suggestions that the rating of empty properties should be abandoned and that VAT on refurbishment and renovation works should be reduced are firmly rebuffed as Government cannot afford to lose the income in the short term, no matter how persuasive the professional or business arguments are.

The underlying theme of these papers is thought provoking as well as topical as property can be a driver for change. But it can also be a blocker to change if not treated strategically. It takes experienced professionals to prioritise what is important and apply the eighty twenty rule.

Now more than ever property is top of the agenda, and it is by having properly skilled professionals at the heart of the public sector that we will ensure value for money at a time when all are operating under seriously constricted budgets. It is really encouraging to hear that good things are already happening in local government.

## Agenda

In this paper I want to consider the role of real estate as a cause of this financial crisis and how it can be part of the solution. Also I want to look at some of the work the RICS is doing to help develop areas of the profession most relevant to the public sector at this time of change. And thirdly I want to reflect on the role of RICS and my role as President within that as I have a number of messages of importance for chartered surveyors.

## The Current Landscape

Currently the world, and particularly the western world, finds itself at a time of unprecedented challenge. These are the challenges resulting from the over-reliance of western economies on debt to fund a lifestyle beyond their means, coupled with manifest failure of foresight and leadership in our regulatory and political systems which failed to adopt Pareto's eighty twenty rule and missed the wood for the trees. This leaves us struggling to emerge from recession with the prospects of a "double dip" and the public sector suffering, arguably the most, with worse still to come. These are sobering thoughts and it always strikes me, when we look back and look at the extraordinary performance of our financial institutions, that they seem to have lost their moral compass completely over the last 5 or 10 years.

In the light of the financial crash Lord Turner, the Chairman of the FSA, recently queried the social value of modern financial developments. Paul Volcker's jaundiced answer, that the only useful recent financial innovation had been the ATM, is very much to the point! We might ask Lord Turner, as you were in power at the time, what were YOU actually doing?

And now we all have to pick up the pieces to ensure our grandchildren are not punished for our own generation's greed and lack of discipline. This is all overlaid with the global challenges of demographic change, climate change, water security, food supply and consequent social unrest. In the west, with an aging population, our standard of living has remained largely static for 10 years; and if I have made you feel gloomy, you may also wish to remember that to tackle these challenges we are all being asked to do more – but with less!

So what can we learn from all this? My elder brother, of whom I have a deep affection, many years ago provided me with an insightful comment about humanity. He said, "the corpus of knowledge is expanding exponentially but the corpus of wisdom is static". I believe there is a lesson in here for all of us, and that is that in order to grow in wisdom we should reflect on the role we play in addressing these challenges and thus securing our grandchildren and great-grand children's futures through hard work, self-reliance, harnessing new technologies and ethical behaviour.

## The Consequences

You may think this rather high level stuff has no relevance to your day-to-day work but this is exactly the point we should address. We need to encourage everyone, from the most powerful leaders in public and private life to the most junior employee, to shun narrow mindedness and take a more holistic view on their role in life. From the real estate perspective one thing that is absolutely clear is that real estate, economics, politics and the fabric of society are totally intertwined and the property sector therefore demands wise and holistic leadership

Consider these points in relation to real estate: -

- Construction swallows up some 60% of all utilised materials, and 60% of all energy consumption is used

on heating and servicing buildings and generates about 40% of carbon emissions.

- The most recent RICS research on the role of property in the UK economy showed that the total value of Commercial and Residential property was about £4.5 trillion (which is over 72% of all tangible assets).
- Property not only provides habitation and a home for industry and commerce, but acts as a store of wealth for a whole spectrum of investors and occupiers which can affect consumer spending, corporate investment and pension capability.

So against this backdrop of financial constraints and global challenge, how can the profession respond and be a driver for change? Although specific issues vary, depending upon where you work, but there are some key themes that I believe are particularly pertinent to those operating in the public sector:

- Firstly effective use of skills and resources through strategic asset management and collaboration across Government and the private sector
- Secondly making the correct choices in using the private sector which means proper and clear decision making in Government with particular regard to clarity on accountability and responsibility
- Third, a focus on good quality professional advice (both internal and external), and particularly the importance of valuation standards
- Finally the creation of fit for purpose property databases using smart technology.

In all of these areas RICS has a crucial role to play in building standards, facilitating dialogue and supplying thought, leadership and research. While public sector chartered surveyors may have felt undervalued by their Institution, which seemed to prioritise the more glamorous private sector stakeholders, it is absolutely clear to me that this is not the case. Indeed supporting the transformation of public sector real estate is at the very top of the organisation's agenda.

## Effective Use of Resources – Asset Management

Cost reduction, reducing overheads and releasing capital determines every single element of business strategy in today's uncertain economic environment. Clearly strategic asset management is a buzzword that has been doing the rounds for some time. But this is inevitable, as making the organisational transformation that is required to allow strategic and efficient use of property is an ongoing challenge that I believe will be with us for a long time to come, especially when property still struggles to make its voice heard at senior levels in government or in the board room.

Whilst a recent international survey by Ernst & Young of Chief Executives (CEOs) and Chief Financial Officers (CFOs) found cost reduction was the top concern of those questioned (84%), real estate ranked only 11th on the list of ways to reduce costs (with only 14% of respondents mentioning it). This always surprises me considering it is usually the second highest cost after salaries.

These principles apply to the public sector as well as to the private sector. Good asset management is a fundamental prerequisite for allowing property to be a driver for change, and not a blocker of change and it requires a professional approach if the Treasury is to make the savings it requires.

It is worth stopping here and thinking for a minute about the aims in the final report of the Operational Efficiency Programme Study which concluded that local authorities and central government can save some £35 billion over the next 10 years from the better use of public estates and produce £20 billion from disposable assets. I do not know how many studies were undertaken to produce the £35 billion figure, so cannot comment, but by now the figure for sales must be wrong. How will you realise your aspirations if the property market is completely dead? In this country we have more office and retail space than we need. And unlike the last cycle in the 90s there is unlikely to be a burgeoning residential or student accommodation or hotel market. So the options that we all face in terms of alternative use are now more challenging than at any other time. We have hit the perfect storm. We have run out of cash and cannot get any cash from selling our properties. It is your job to tell your management the truth. You cannot sell the Chief Executive a plan that is not deliverable in the market place, it is much better that he or she is told the truth as you see it.

- This means that the public sector has to start taking a more strategic approach to property, this means: -
- Joined up processes which link to corporate objectives
- An understanding of non-financial and financial issues
- A systematic and coordinated approach to planning and
- Medium to long term thinking

I think it is fair to say that we are all grappling with the difficulties of making this happen, especially given the tight financial purse. Just think of the day-to-day challenges that make this transformation difficult: -

- Building skills inside the public sector to ensure efficient use of private sector skills and effective use of PFI and PPP arrangements.
- Short-term thinking is a barrier when it comes to property, which is essentially a long-term asset, making patience and strategic thinking essential.
- Property is the slowest to change of all the strategic resources due to a range of reasons, from Legal and Financial issues, to Construction, Development, Regulatory and Property market drivers. This means that simple, short term cost cutting policies may be difficult to achieve on any significant scale and may not yield the sustainable improvements in efficiency that are so badly needed. It can be extremely difficult to stand up to the inadequacies of short-termism and make a reasoned quantitative argument for a longer-term approach that may incur cost in the immediate term (a so called J curve).

Fundamentally property needs leadership and direction, and the ability to join up the interests of disparate departments, into a combined property strategy through collaborative and forward-looking initiatives (such as Total Place). This is a real challenge in any environment, and all the more in large public sector organizations. The RICS is already

working with Government to ensure that the key component of success, namely strategic asset management, is given appropriate priority through access to guidance, training and qualifications; and by encouraging public-private sector knowledge sharing.

And here the qualified professionals in the public sector, have a crucial role to play in forcing property onto the agenda at senior level and working with the RICS to tell the politicians and ministers the reality, even if it is not what they want to hear.

## Localism and Decentralisation

The new government is heralding a huge shake up in several areas, most significantly in the planning system for delivering housing and public infrastructure through the Localism And Decentralisation Bill due before Parliament later this year. Since coming into office, the new government is looking for help to turn its aspirations into practical and workable solutions and this presents a great opportunity for the profession to help shape future planning legislation if the wealth of expertise can be channelled and balanced properly.

Since the election, The RICS External Affairs team have held a number of meetings with different local government partners, Communities and Local Government representatives and ministers. With this in mind, and in line with our public interest mandate the RICS is now placing its efforts into channelling the expertise of members, who are professionals in local government, planning and housing sectors, to help with engagement with the government. To achieve this, we are running a series of local government workshops to share ideas on best practice and highlight remaining areas of uncertainty for clarification or industry guidance. Remember that we need YOU, as the leading property professionals in the public sector, to help us to craft our policy positions.

## Valuation standards

Underlying much of what Chartered Surveyors do is valuation and this is without doubt the field in which RICS is now recognised as the world's leading professional brand. And this is a good thing because never more has the valuation profession found itself so under scrutiny by regulators, the media and recipients of their valuations in a market with limited or unreliable evidence. Despite that there is still a widespread lack of understanding among clients about valuation standards. I believe that this post credit crunch era does herald a return to a focus on asset quality and good advice based on a greater desire to understand the limits of security of collateral and thus a return to property fundamentals.

Against this backdrop, global markets and public authorities are demanding international standards and sophisticated advisers more and more. In 2009 the G20 called specifically for "clarity and consistency in the application of valuation standards internationally". Whilst the impact of globalisation is mostly immediately relevant to the private sector, the move to international standards in financial reporting and

valuation are equally affecting chartered surveyors in the public sector.

Valuation professionals who have found themselves in the midst of a shifting landscape feel these issues keenly. More than ever there is the need for a professional body that can join up the dots across disciplines and across borders. And in this world the RICS has a lot to say. Most importantly on the international stage the RICS has continued to provide strong support to the development of International Valuation Standards, the Institution was a founder member of IVSC and remains a significant supporter and sponsor. The latest exposure draft of IVS published in June 2010 continues the process of Red Book/IVS convergence. When the Red Book is republished in April next year IVS will be adopted wholesale along with any additional RICS global rules for valuers.

However international rules are only part of the picture, in the UK we have produced a wealth of new red book material in the last year, some of which is highly relevant to the public sector. Most obvious, is the new guidance produced in association with CIPFA to support local authority valuers with the move over to IFRS. However new technical guidance notes on the valuation of land for affordable housing, rating appeals, discounted cashflow analysis, valuation of new build housing, valuation of trees are also relevant with Valuation of water and Valuation of woodlands amongst many others to come shortly. These are just a few titles to add to the extensive list of existing material all of which is free to members. Please log on to [www.rics.org/guidance](http://www.rics.org/guidance) to see the wealth of standards and guidance the RICS produces not just in valuation but also in all fields.

## The Valuer Registration Scheme

Now, before moving on from valuation, you will be keen to hear the latest (September 2010) news on this scheme. In October 2010 the RICS will be launching a registration and monitoring scheme for all who undertake valuations covered by the red book and this includes a number of members operating in the public sector. ACES responded to our 2009 consultation and I believe that all of the substantive points have been addressed. The scheme will ensure that we are meeting our public interest requirements by having a mandatory profession led system of enforcement to ensure that our standards are being met. The cost of the scheme will be modest, and whilst I recognise that some members will resent paying extra levies, I ask you to consider that the RICS has an important role to play in self regulation and if we do not get our house in order as a profession, it will be done for us. The RICS Registered Valuer will be the gold standard for clients to ensure they are only using the best regulated and qualified professionals in the business be they in the public or private sector. Detailed information on pricing and processes will be made available from the last week of September 2010.

## Environmental Issues and Sustainability

The important issue of sustainability, along with valuation, is the second of the top two global themes in the current RICS

business plan. Our commitment to sustainability evidenced by the fact that it is now widely considered to be leading the global debate on sustainability in the built environment and its impact on market pricing. Our growing body of research on the subject of sustainability and value shows a capital and rental pricing differential between energy efficient and non-energy efficient buildings. So the key reason for transformation of operational and investment property strategies is now simple economics. Many cynics believe this is all too late but I would remind doubters of the Chinese proverb "The best time to plant a tree was twenty years ago. The second best time is now."

Whilst there is no universal definition of sustainability it is widely recognised that energy efficiency is one of the key strands. In the UK, the public sector is responsible for 3% of all carbon emissions, and spends over £2.5 billion on energy every year. Francis Maude, Minister for the Cabinet Office, has called on departments and contractors to work together to cut central government carbon emissions by 10% by May 2011, using the experience and innovation of the private sector to find practical and effective solutions; an excellent example of the collaborative approach referred to earlier.

## Provision of Skills and Mobility

A fundamental part of allowing property to be a driver for change is ensuring that we have a supply of skilled professionals that can be trusted by markets and the public. This is just as important in the public sector as it is in the private sector. In fact I would even go as far as saying it is more important given that your remit is explicitly to safeguard the public interest. Therefore I challenge the leaders of public sector departments and agencies to think hard about the support they give to encouraging professional qualifications within their staff and to bring their property professionals into the heart of strategy formation. Fair access to professions is an issue of crucial importance to RICS as it is to all political parties. In addressing the increasing diversification of many of our services and to help maintain a youthful and diverse membership, we have launched the Associate RICS qualification that is equivalent to a Para-Legal or a Paramedic in terms of providing training at a technical and operational level in Real Estate. We envisage that the Assoc RICS qualification will be highly relevant to many operational functions within the Public Sector, in support of those taking the more strategic view.

## The RICS

Having now reached what is perhaps the culmination of my RICS career, as President, I thought I might leave you with a few thoughts on the role of the RICS and its vision. One thing that is absolutely clear is that the RICS has changed beyond all recognition from the organisation I joined in 1973. Whilst the bulk of its membership is located in the United Kingdom, its biggest expansion is overseas, and we now have roughly 19,000 members living and working outside the UK, (most of them indigenous to their country of practice), and this figure is expected to grow by around 50% in the next three years. This growth is largely a response to the internationalisation/globalisation of capital markets and the corporate world,

plus the requirement for consistency of professional service, approach and standards Worldwide. This dramatic change is unsurprising; after all we are in a completely different world to that of the 1970s. I do not personally think this change is threatening. I think that we, as members, should embrace this change and take pride in the global reputation that RICS enjoys. Remember it means that any one of us could take our qualification to any continent in the world and be recognised by the market as a competent property professional. The RICS has a big role to play, some say too broad to be coherent. But this is looking at it from wrong end of telescope. Our breadth is our strength and the World needs joined up solutions.

I have one final quote that I feel is relevant here. Bowen H "Buzz" McCoy, in his treatise "Living Into Leadership: A Journey In Ethics," published in 2007 insightfully stated: "Public trust is a precious gift and it should not be squandered". With this in mind now is the time to re-emphasise the core principles of professionalism and in so doing we should rally under the umbrella of our professional body. And if you want to know what it is that makes the RICS special, it is this simple point, the RICS is a professional body, not a members' association or trade body.

In our Royal Charter, granted in 1881, the most pertinent clause reads, "The object of the Institution should be to secure the advancement and facilitate the acquisition of that knowledge which constitutes the profession of a Surveyor.....and to maintain and promote the usefulness of the profession for the public advantage in the United Kingdom and in every other part of the World."

This tells us is that this professional body is primarily here to advance the public interest through standards, knowledge and effective regulation and in so doing raise the status in the public eye and thereby benefiting our members. So I challenge all Chartered Surveyors to be bold, brave and lead with confidence across disciplines and geographical boundaries, proclaiming the value and importance of professional standards and ethics for the benefit of our stakeholders. And I challenge our clients and employers to engage with us and keep us up to the mark.

My mission during the coming year is to focus both on the raising these professional standards to keep improving the service to our clients and employers, and to improve awareness of them, thereby honouring our obligation to our patron the Queen, to maintain and promote the usefulness of the profession for the public advantage in the United Kingdom and every part of the world.

Robert Peto  
President, The Royal Institution  
of Chartered Surveyors

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# ASSET



## THE AUTHOR:

Tim Shaw is a partner in Nabarro LLP, solicitors. He has over 30 years professional experience working as a lawyer in both public and private sectors. He has experience in public private partnerships and regeneration matters.

His initial experience was gained with a large Metropolitan Authority as an in-house lawyer where he had responsibility for a wide range of contentious and non-contentious matters, including planning and development and education. In 1989, he moved into industry and specialised in the field of commercial and agricultural property. In 1990 he joined the Commercial Property Department of the firm and became a partner in May 1994. More recently, he has developed the firm's practice in the area of PFI and has continued to act on major property instructions.

Led by Tim, Nabarro LLP's social housing team acts for a large number of city councils, including Sheffield and North Tyneside.

## IMPLEMENTING THE VISION

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THE CURRENT LANDSCAPE

COLLABORATIVE AND MORE INNOVATIVE WORKING

HM TREASURY JOINT VENTURE GUIDANCE

CLOSING THOUGHTS

ACES Presidential Conference  
Newquay, September 2010

ACES Paper No 10.09/3 by

**TIM SHAW**

Partner, Nabarro LLP

# THE CURRENT LANDSCAPE

Before dealing with legal solutions I want to look at the situation we are in now and highlight some points for you to consider in preparing for joint ventures. Property is going to be a key aspect in success, maybe not immediately, and certainly not by selling at the bottom of the market.

The key features of the current landscape are

- Budget cuts, 20%, the Spending Review announcements due on 20 October 2010
- Capital spending is falling and a “comprehensive review to ensure affordable and to identify areas that will achieve the greatest economic returns” is promised
- The new “Efficiency and Reform Group”, the government body that will look at contracts, renegotiation, procurement changes,
- The Government Property Unit, looking at assets and the Local Enterprise Partnerships (LEPs)
- RDAs are going but the LEPs set to replace some of their roles will not have, apparently, the same resources,
- Review of existing contracts and procurement reform
- Asset values reduced, future looks uncertain

So there is pressure to maximise assets, on reduced budgets, whilst protecting front line services. The perfect storm? This means that in the future property professionals in the public sector, as guardians of public assets, will come under strong pressure to maintain the quality of those assets. Authorities will need your input, professional guidance and strength.

## Collaborative and More Innovative Working

Therefore we are now looking forward to an era of more collaborative and innovative working, for example: -

- Property rationalisation and relocation strategies; changing the way property is used. There are already practical examples of this around today.
- Shared services – collaboration in the provision of public sector services
- Disposal/joint procurement options; many Authorities have had a veto on property sales for 18 months or so due to the state of the market and an inability to get anything like a decent price or best value. But the market will come back and then there will be issues about how to strategically achieve the best deal.
- Joint delivery vehicles; these include, for example, PPP, joint ventures and partnership arrangements. I anticipate we will move into an era of more freedom to do joint vehicles with less centralisation, less standard top down arrangements unlike those imposed by Private Finance, BSF and LIFT. There are lots of the forms of the ventures and the partnerships that are not what Local Authorities would have gone into had they had the choice. They

would have preferred to do it in another way but were in a situation where the position was “if you want the money, want the credits to do your new facilities, then you must adopt the terms and provisions of standardisation.” I think in the future Authorities will have opportunities to enjoy more freedom in partnering for new ventures.

- Reviewing exit strategies; reviewing existing contractual terms to identify potential savings.
- Greater use of Local Authority powers. Years ago, starting with the Thatcher years, Local Authorities had a period of war in wanting to do things with Government continually trying to stop them. Problems arose and Capital Finance Regulations were introduced that penalised the use of capital receipts. Then there arose the situation where some deals and ventures that authorities went into for the benefit of their areas contravened powers and vires. Some Authorities acted beyond their powers and schemes were held to be ultra-vires, and ventures were deemed to be un-enforceable. Since 96/97 onwards Government has introduced much new legislation to give an Authority more powers to do different things. Although situations can arise and cause an issue every now and then, for example, with the use of the well-being powers, authorities can now do a lot more with their assets.

In summary available powers are as follows.

## Local Authority powers to establish or invest in delivery vehicles

- trading powers - section 95 LGA 2003 and SI 2009/2393
  - limited liability companies
  - function related activities
  - blanket authorisation to do for commercial purposes that which would otherwise be authorised pursuant to some other statutory provision
  - requires preparation of a business case
- well being powers – section 2 LGA 2000
  - entities for commercial purposes
  - Brent v. LAML
- using LPs or LLPs as a vehicle - caution
- funders, Local Authority officers and auditors all need to be satisfied scheme is “intra vires”



In my opinion authorities now have the opportunity to come up with more innovative ideas. The powers are there and need to be used and considered carefully. Authorities need to take the right advice and think strategically at an early stage.

Given that we are in times of reduced funding, lack of external capital, and pressure on front line services, then one option, and a legal solution, is the possibility of utilising joint ventures. There are many different kinds and they offer a variety of benefits and drawbacks as listed below.

## What are the perceived main benefits for a Local Authority in delivering a joint venture?



(in order of priority)  
Source: Nabarro LLP 'Opening Doors' study February 2010

## What are the perceived drawbacks for a Local Authority in delivering a joint venture?



(in order of priority)  
Source: Nabarro LLP 'Opening Doors' study February 2010

It is imperative to carefully consider the benefits and the downsides at an early stage. Do not walk into a joint venture or think about doing a joint venture with blinkers on or eyes closed. There are things to think about, the cost of the set up, officer time and the lack of resource when big schemes come up. When big projects do go ahead all too often I see council members and officers being given important roles on top of the day job. These are huge commitments and very often difficult to properly resource.

## HM Treasury Joint Venture Guidance

This guidance headed Joint Ventures; a guidance note for public sector bodies forming joint ventures with the private sector, was issued in March 2010 and replaced earlier guidance. It is a succinct summary of JVs in the public sector and I commend the document to you. It is not clear whether the Treasury's purpose in publishing the Guidance is a deliberate push to encourage joint ventures but it is a good piece of guidance for those wanting to move down that route. These are a few key definitions.

## HM Treasury Joint Venture Guidance

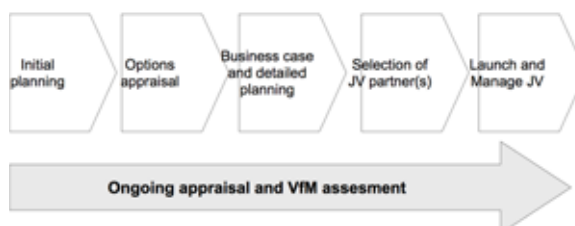
"1.12 A JV involves risk sharing."

"1.17 JVs are usually established because the parties have complementary objectives and share a view of the nature and scope of its activities and the JV's longer term objectives and benefits."

"1.17 If this alignment of interests is not present, a JV is unlikely to be the best structure to use."

Again do not just walk into joint ventures if you are looking to deliver services through your property assets in some way or other but go through a process comprising the following elements.

## How a joint venture becomes a reality



source: HM Treasury Joint Venture Guidance

Having done that if you do not think it works, as professional property guardians in your Authority, you must say so. We cannot afford and your Authority cannot afford to go into ventures that prove to be disasters or fall flat on their face. Joint ventures are very expensive and are seriously difficult to unpick if they go wrong. Therefore ensure there is detailed planning and detailed exploration, take advice, select your partner properly, follow all procurement rules that apply, then launch and manage your JV.

A particular issue with a joint venture is the Local Authority presence on the Board of Directors as this sometimes presents them with difficulties in terms of what hat they are wearing. Where an individual has both a public and private director role to fulfil there is a difficult line to be trod.

In summary the Nabarro check list of preparatory work, whatever joint venture structure is deployed is

- Get the business case right
- Take advice on what sort of entity you are looking at
- Consider powers, approvals and consents necessary and ensure that whatever it is you want to do you are in fact

able to do it and will not spend a lot of money going down a road that proves to be a cul-de-sac

- Have regard for things like procurement and state aid, you can normally either get round procurement and state aid easily or you can comply with it
- Consider carefully accounting and governance and make sure these are all distilled properly into contracts and documents.

## Types of joint venture

- Contractual joint venture
  - Development Agreement
  - Lease
  - Clawback
  - Overage
- Joint venture vehicle
  - Company limited by shares
  - Limited Liability Partnership
  - Limited Partnership

There is nothing wrong with contractual joint ventures. The old style development agreement, the lease and picking up future value through claw back and overage can work perfectly well. I can think of deals I did back in the 90s that are now earning public sector clients very tidy sums on overage and claw back. Some may remember one or two disasters in the 80s when public assets were sold off with no future overage or claw back provisions and where the private sector made considerable gains. These tools are effective and work well but do take time and management effort to work through.

Some of the joint venture vehicles have been around for a number of years too.

## Contrast the options

### Joint Venture Vehicle

- sharing risks
- joint management of risk
- sharing benefits
- complementary objectives
- alignment of interest

### Contractual Joint Venture

- clearly defined outputs
- limited scope
- no potential for growth or diversification
- risk is transferred
- want to crystallise a cash sum

Remember the contractual joint venture is suitable for limited scope one off job whereas the other joint venture vehicle may suit more long-term ventures.

## Contractual Joint Venture

### characteristics

- can look very similar to any other JV structure, but without the vehicle
- can have the benefit of simplicity
- no supporting body of law – all matters need to be clearly set out in governing contracts

### pros and cons

- tax transparent
- no vehicle to raise debt and grant security
- Local Authority must be satisfied with long term credit risk of counterparty

There are 8 possible options for joint venture vehicles, summarised as follows.

## Joint venture vehicle

options include:

- company limited by shares
- company limited by guarantee (may also be a charity)
- limited liability partnership
- limited partnership
- general partnership
- Industrial and Provident Society
- community interest company
- hybrid



- find the best option for your scheme

In my experience the company limited by shares and the limited liability partnership (LLP) are probably the ones that tend to be used today. But again I must make the point that you need to analyse your objectives and how that fits in with new governance and corporate structures.

## A development joint venture: the starting point



In simple terms to form this vehicle the Authority puts in the land and usually funding, supplies, and other entities come from elsewhere.

The parties involved all bring in different characteristics.

### Who brings what to the party?



### Private company limited by shares

- | characteristics   | pros and cons  |
|---|--|
| <ul style="list-style-type: none"> <li>governance set out in shareholders' agreement and articles of association</li> <li>governance arrangements supported by significant body of law and practice</li> <li>investors own voting shares</li> <li>run by board of directors</li> <li>subject to Companies Act 2006 and company law</li> </ul> | <ul style="list-style-type: none"> <li>creates tax inefficiency</li> <li>simple governance structure</li> <li>universally accepted</li> <li>able to raise third party debt and grant security</li> <li>allows exit and third party investment</li> </ul> |

The limited liability partnership is a slightly newer structure,

An alternative approach is the private company limited by shares. This is simple in format, see below, but has tax inefficiencies.

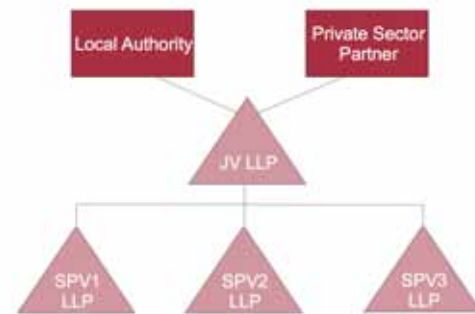
### Private company limited by shares

simple on paper, but has tax inefficiencies



### LLP

newer alternative structure



Its characteristics and pros and cons are as follows: -

### LLP

- | characteristics   | pros and cons   |
|---|---|
| <ul style="list-style-type: none"> <li>each investor is a member of the LLP</li> <li>governed by members' agreement</li> <li>Limited Liability Partnerships Act 2000</li> <li>an LLP requires at least two members</li> </ul> | <ul style="list-style-type: none"> <li>tax transparent</li> <li>vehicle has only recently become used as an institutional real estate investment vehicle</li> <li>unattractive to pension funds as investment vehicle</li> <li>not within s.95 LGA 2003 so need to find alternative power: well being?</li> <li>allows exit and third party investment</li> </ul> |

I was involved in setting up a big venture last year for a northern local authority and through the management of the shareholders' agreement, and its restrictions and powers, the authority's position was well protected. These agreements control how the company behaves, how it makes critical decisions and how exit strategies can be negotiated if things become difficult. Characteristics and pros and cons are as follows: -

The LLP is proving reasonably popular but there has been a little bit of doubt about how authorities could enter into these. However, there are some serious QC opinions saying yes you can do it on the basis of well being power but not the trading power.

## Limited partnership

tax efficient vehicle, widely used for institutional co-investment



made to look like a contract and a contract can have the characteristics of a joint venture vehicle.

Finally do not sleep walk into complex Joint Ventures for the sake of it. An old simple contractual arrangement, a tried and trusted Lease structure with a careful use of claw back and overage, may well suffice for some deals.

TIM SHAW  
Partner, Nabarro LLP

The Limited Partnership concept goes back over a 100 years and is still used for investments. Although and there is nothing particularly wrong with this method I doubt that many authorities would choose one as most opt for the company limited by shares. The particular characteristics and pros and cons of the Limited Partnership are below.

## Limited partnership

### characteristics

- investor holds LP interest (economic interest) and shares in general partner (to exert control)
- governed by a partnership deed
- general partner and limited partners usually SPV companies limited by shares
- shareholders' agreement for general partner
- assets held by general partner
- governed by Limited Partnerships Act 1907 and body of partnership law

### pros and cons

- tax transparent
- institutionally acceptable (including pension funds)
- complications regarding trading powers: companies within structure will be permitted vehicles, but a limited partnership is not
- hybrid structure requires more very clear governance arrangements and management
- allows exit and third party investment

## Closing Thoughts

- The law is there to be used, consider carefully the powers that you have before you go into a venture; form should follow function.
- Focus on your objectives from the beginning; know what you want to get out of the project and what you are trying to do.
- Be prepared to see the landscape change, keep an open mind, as there may be different models that you could use. Focus on contractual flexibility. Be sure to consider such matters as exit arrangements, termination, intellectual property transfer, employees and those other matters referred to earlier. Remember a JV vehicle can be



# ASSET



## THE AUTHOR:

I have worked in the construction and property professions for over 25 years and developed a wealth of knowledge and expertise. After working as a Chartered Quantity Surveyor and Project Manager in the construction industry I joined District Valuer Services in 1999 as a Senior Consultant Surveyor. Whilst at DVS I have worked as both a Project and Programme Manager for national valuation commissions including such prestigious contracts such as HM Prison Service and Her Majesty's Courts Service.

Currently I am Head of Strategic Asset Management responsible for the delivery of a range of strategic asset management services across the public sector and am working with many public sector organisations developing and implementing property strategies.

## PROPERTY. JUST DO IT!

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PRESENTING THE DATA

THE DVS PROPERTY HEALTH CHECK

ACES Presidential Conference  
Newquay, September 2010

ACES Paper No 10.09/4 by

**MARK O'BRIEN**

Head of Strategic Asset Management,  
DVS Property Services

# CHANGE IS A CONSTANT

The overall theme of these papers is change and, in particular, about property being a driver for change. At the moment I think there is a feeling of inevitability that some fundamental structural change is just around the corner. The briefing note of the Comprehensive Spending Review suggested that the CSR was likely to define the beginning of a series of cut backs that will affect us all in the public sector and those of us the private sector who advise the public sector. Despite the continuing uncertainty one thing is certain - there is likely to be some big changes around the corner. Property is likely to play a big role in these changes, so I contend that we need strategies and plans to cope with the changes that we are about to face.

## Recent Changes

First of all I want to consider some of the things that have changed since my Liverpool/Asset paper of May 2010. The biggest change of course is the new Coalition Government. The new government says it is all about change, with a new focus on Decentralisation, and to prove it there is a Decentralisation Minister, Greg Clark. He has said, (we have) "Stopped handing out the money and started handing the power." Probably the biggest announcement made to date from the new government is the abolition of the PCTs and the Strategic Health Authorities. The White Paper is about liberating the NHS and how Government intends to devolve power and responsibility. That is a big change and the intention is to devolve responsibility down to a local level and to local authorities. Their role will be to promote the joining up of services. They will have new functions about promoting integration, promoting partnership working and collaborative working. This raises some big questions around the large PCT estate, both owned and leasehold, that cannot be answered as yet.

My Liverpool/Asset paper made many references to collaboration, working across boundaries and viewing the public sector estate as a joint strategic resource. What has happened since May 2010 only reinforces those messages.

The Government has announced other changes. It wants individuals to take the initiative and, as Lord Bishard said, "Don't expect measures, guidelines or money – just do it!" Again the Government has announced other changes such as

- The abolition of the Audit Commission
- The abolition of the Comprehensive Area Assessment (CAA) and that
- FRSs no longer comply with RICS Strategic Asset Management Guidelines.

Clearly Government wants to be seen as a government that removes bureaucracy, and stops interfering, and is prepared to let those who know best to get on and do it.

## What Has Not Changed

Although change is a constant and very much part of our lives there are things that have not changed.

Property is still a significant cost liability and an asset. It can represent opportunity; it is an enabler and a major strategic resource. The Efficiency Agenda, which we have been following for the past few years, is still with us. This means that the use and management of property will be increasingly scrutinised. It has been on the radar of successive parliaments, it is on the radar of the Coalition Government and this will continue. Property will be very prominent in the future thoughts of politicians and civil servants.

John McCready now heads up the Government Property Unit (GPU). The Unit is tasked with finding better ways of managing government property and is responsible for strategic property leadership across the public sector. It is likely that where the GPU goes others will follow. The priority for the GPU is not to sell assets but to help the government tackle the deficit. It has already stated that making more efficient use of Government space is the best way to do this. For obvious reason better utilisation means using less space, cheaper operating costs, and identifies surpluses to dispose of when the time is right, not conduct a fire sale now. The GPU is also charged with making savings under the Operational Efficiency Programme (OEP).

## Publications and Guidance

The OEP is probably one of the most relevant documents for the public sector. It follows the Room for Improvement Report from the Audit Commission, Building on Strong Foundations and various guidance and reports on Local Authority Asset Management.

Five senior reviewers put the OEP together in order to find efficiency savings through cross cutting measures. The OEP final report was published in April 2009. The headline statement from this report is that the OEP is looking to achieve £15 billion of annual savings from

- Back office operations and IT
- Collaborative procurement
- Asset management and sales
- Property and
- Local incentives/empowerment.

The report identifies that it costs £25 billion per year to run public sector property and that this is 5% of total public sector expenditure. Clearly this firmly establishes property as a priority and in my opinion is why the GPU is focusing on reducing space and making more efficient use of space. In my opinion the message here is if you have yet to think about property strategically, and how all these changes are going to affect you, you should really start now. Strategic asset management will not be a tick box exercise. It may have been seen as that in the past.



- What should be released to generate resources for reinvestment in the business; surplus assets

But before you develop any strategy for property, it is essential to understand the business involved. This is not necessarily all that straightforward. Consider, for example, the primary objectives of three well known but different organisations. Most would agree that for an ambulance service, one of the primary objectives is to take patients to the nearest hospital. This is not necessarily so. One of the primary objectives is to respond quickly, assess and deliver treatment at the scene, if that is appropriate, or to take the patient to the most appropriate place of care or treatment. Again most people would think that one of the primary objectives of a Fire and Rescue Service is to extinguish fires, but this is not so. It is about preventing fires as this is cheaper than putting them out. Prevention is approached through education and communication and community engagement, which immediately raises some interesting questions about fire stations. Finally most people would think that holding inmates securely is one of the primary objectives of the prison service and whilst this is true, it is not as important as reforming behaviour and rehabilitating offenders to reduce re-offending. That also raises some interesting questions on custodial property. We will never become an expert on ambulance services, fire services or whatever, but it is really about sitting with a client and listening and trying to understand the business and trying to tap into the client's unique knowledge of the business.

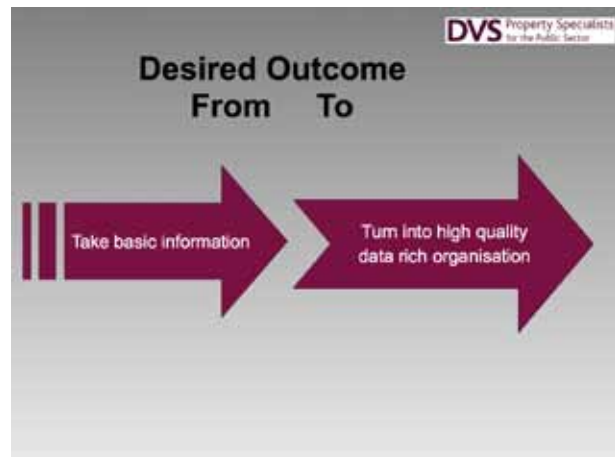
## Developing a Property Strategy

We have a 3-stage approach.

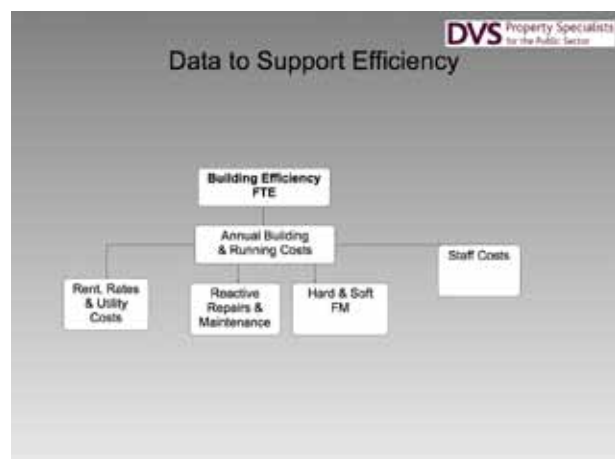
Stage 1 has two desired outcomes. The first is to develop an estate aligned to the business and corporate policies and objectives of the organisation. Our stage one processes are

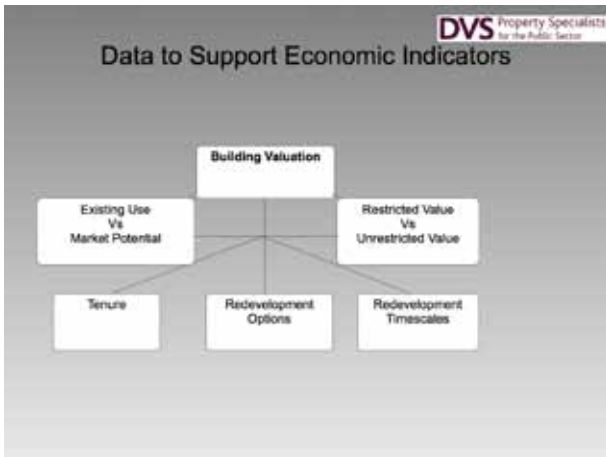


I believe that collecting relevant data and scoring the current estate is a very important point, and so does the OEP and the Audit Commission. The OEP says, "If it can't be measured, it can't be managed." The key issue is to take an organisation from holding basic information and turn it into a high quality data rich organisation.



There are different types of property data, data to support efficiency, to support effectiveness and to support economic indicators.

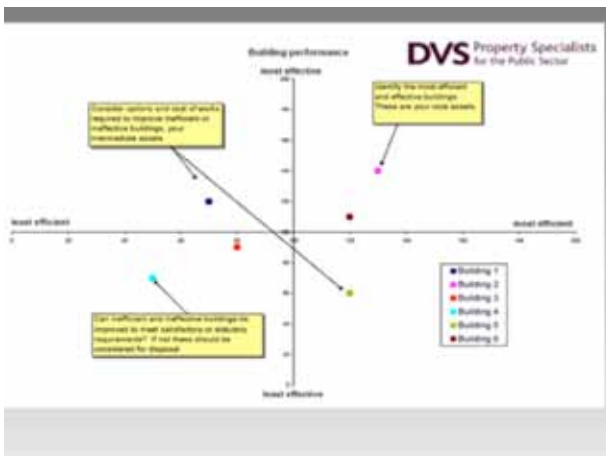




The above describes what we call The DVS Strategic Property Appraisal (SPA). It is a detailed assessment of cost efficiency, how effective the building is at delivering services, what opportunities are there for future improvement or may the building soon become unfit for the business.

### Presenting the Data

To gain or retain management support the simplest presentations are to be preferred.



Having plotted the buildings on this chart using the data collected, the top right hand quadrant represents the most efficient and effective properties, potentially the core assets. Conversely the bottom left hand square shows the least efficient least effective property, potentially surplus assets. The other 2 quadrants show intermediate assets so you need to start thinking about option appraisal based on the inefficient and ineffective factors to see what can be done to possibly move them towards the top right hand quadrant. On the other hand if say an ambulance station cannot respond to calls in the specified time as it is in the wrong location given demand activity then it is in the wrong place so it will not matter what you spend on it you will not improve its effectiveness when measured against that criteria.

A chart is another way of presenting detailed outcomes.

This can be simplified for senior managers and non-property people through adopting a traffic light league table format.

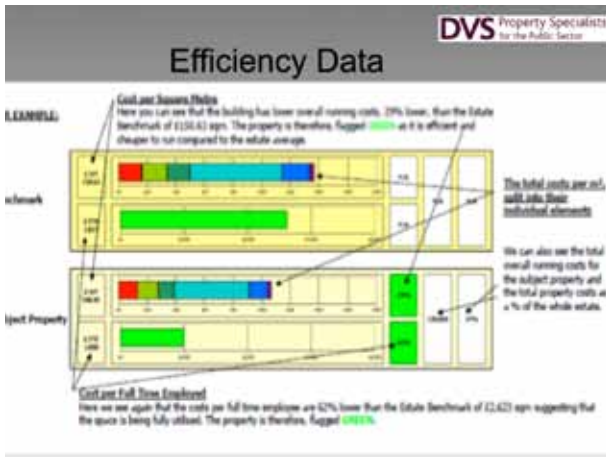
Remember one of the big criticisms of the Operational Efficiency Programme is that property professionals fail to present data to non-property people in a format that is easily understandable.

### The DVS Property Health Check

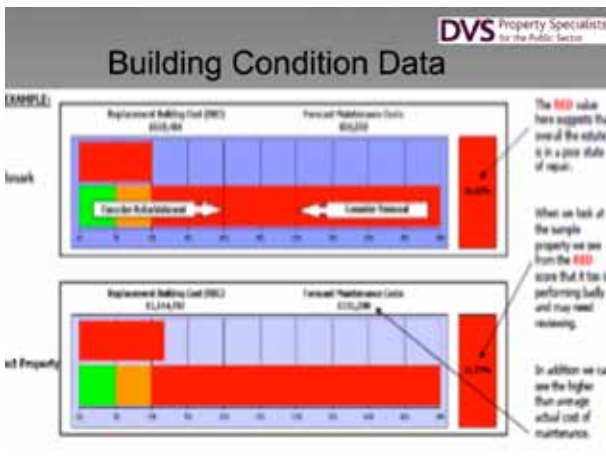
Not every organisation is ready for the detailed efficiency and effectiveness assessment of property so for those in a little bit more of a hurry we also do a Property Health Check, a preliminary tool to produce information that can start to raise the profile of property within the organisation. The health check tries wherever possible to use existing data to develop

- Efficiency indicators
- Condition indicators and
- Economic indicators.

The SPA can be built onto the health check, as the only item missing from a full SPA is a detailed assessment of building effectiveness.

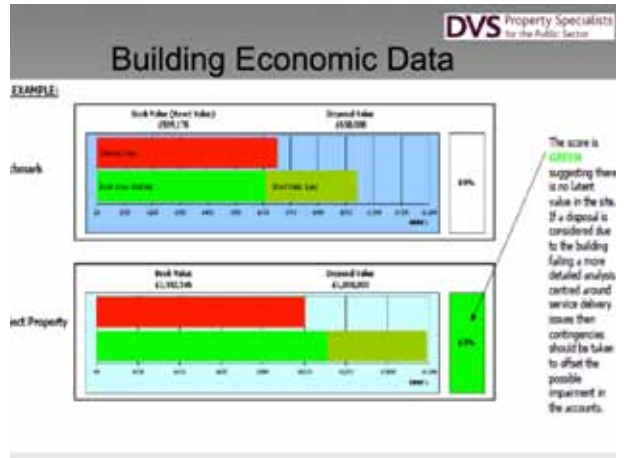


Here we consider building efficiency data a benchmark is set at the top of top of the chart. That could be an average performance across the estate or whatever the organisation feels it wants to work towards. The benchmark looks at such costs as rent, rates, utilities, capital charge etc. These are expressed in terms of cost per square metre and the chart also records how much of the building occupied, numbers of full time equivalent member of staff, staff on shift, etc whatever is needed to arrive at a unit of assessment. Once you have a benchmark the subject property is measured. Care is needed in making decisions. You will get instances where property costs per square metre are a lot cheaper than your benchmark or estate average. That looks good, but if the property is under-occupied the real cost to the business could be a lot more, as the property is not performing cost effectively.



Building condition data has an impact on how property performs. We use backlog and forward maintenance costs to calculate the facility condition index. This will identify properties that are approaching an index where you should start to be thinking about refurbishment and also properties with an index that indicates it is time to start to think about decommissioning or renewing or considering how fit for purpose the building is for delivering services. The example is one used by a health organisation and I suspect that it was selected as it was falling apart. Facility condition indexes were approaching 100%, so if you knocked it down and rebuilt it, it would be cheaper than dealing with the identified backlog

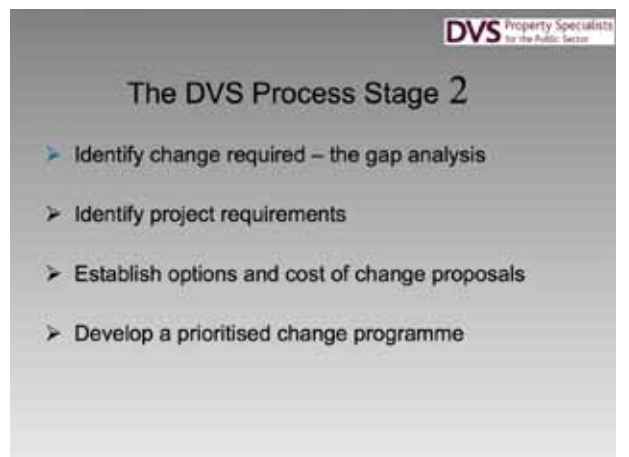
and forward maintenance. This is about trying to get a very early indication of fitness for purpose.



Economic data is mainly about valuation. The green bar is the book value for the property and the red bar at the top is disposal value. In this instance both are heavily impaired. You need to identify issues like this, as it will impact on the decisions that you take.

The whole idea of the health check is to start focus thinking and stimulate thought around property performance. All the data captured for the health check supports the Strategic Property Appraisal (SPA) anyway. So anything you do thereafter is building on to the health check. The health check is ideal for identifying properties that you need to look at in more detail.

The second stage of the process of developing strategies is that once you have analysed the data, and got the results, you can use these to fully integrate property projects into corporate planning and then move onto stage 2.



This produces what is effectively a capital investment.

The third stage is to move on from reactive asset management towards a fully integrated strategic asset management plan and from implementation to annual review. It is best to have a dedicated project team to plan for the annual implementation and review. The team will look at

option appraisals, affordability and achievability issues and develop business cases as appropriate. Also it can review and monitor the strategy and how you are progressing in terms of implementation.

The appointment of dedicated team raises the issue of capability and capacity. This was always a difficult one as often the trend was to add team membership to the day job. Of course, the added difficulties now are that we are in a difficult situation economically and so there is no new recruitment and we have probably lost a lot of staff already, hence capability and capacity are already severely compromised; this is just one more problem for you to address.

Mark O'Brien  
Head of Strategic Asset Management,  
DVS Property Services

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## THE AUTHOR:

Chris Brain is a Senior Advisor with CIPFA Property, and is involved in preparing and facilitating events, seminars and workshops for CIPFA's Asset Management Network, Highways Asset Management Network and also its Construction & Property Advisory Service. As such Chris has a great deal of experience in analysis, interpretation and dissemination of good practice.

In addition to providing these services, Chris undertakes a range of related consultancy and speaking assignments and was one of the contributors to the Asset Management Guidance published by the Royal Institution of Chartered Surveyors in 2005 and the subsequent RICS Asset Management leaflets.

Chris spent over 24 years working in local government prior to joining CIPFA Property 7 years ago, and has been able to draw upon his considerable practical experience in supporting organisations through improvement and change.

# WHAT'S AROUND THE CORNER? FUTURE CHALLENGES AND OPPORTUNITIES.

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FINAL THOUGHTS

ACES Presidential Conference  
Newquay, September 2010

ACES Paper No 10.09/5 by

**CHRIS BRAIN**

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# INTRODUCTION

In preparing this paper I was struck by the vast array of issues that we are facing and are likely to face; identifying the issues was easy. But are these challenges or opportunities? In reality, many of the issues present both challenges and opportunities. How they will be viewed will depend on your outlook on life and whether you are an optimist, a pessimist or a realist.

I have grouped the range of issues into 2 categories.

- Firstly, there is the big political change that has taken place in 2010, both a change of Government, which most of us have seen before, AND Coalition Government. This is a new era in politics and will make for interesting times. So my first group of issues arise out of the new policy framework that these changes have brought and will bring. We have seen some radical shifts in policy already.
- My second group of issues relate to the economic situation, the public debt and the response that will be required of Local Government, and many are already responding. Part of the impact of the economic situation is the political response from Government, but the financial pressures are such they deserve to be separated out.

## The Policy Framework

Prior to the election you were all frantically reading the political manifestos of the main parties trying to understand what the election result might mean for you, your Authority and its property portfolio. Had there been a party with an overall majority then the policy framework would have been clear. Instead we have a Lib-Con coalition and its policy framework is developing over time although there is already much in the public domain thanks to the published Coalition Agreement, and a subsequent string of policy announcements. Many of these policy areas will affect us but the main ones are

1. Inspection Regimes
2. The Decentralisation and Localism Bill
3. Total Place
4. Free Schools and Academies
5. BSF and Schools Capital

1. Inspection Regimes There was much rejoicing in May 2010 at the demise of Comprehensive Area Assessment (CAA). There are those that believed the CAA ratings were at best spurious and at worst completely wrong. Believe it or not there are many Authorities that actually placed some value in having an external assessment in order to provide external challenge of its resource and asset management. For these Authorities the scrapping of CAA has left a void.

Such assessments did often help an Authority to maintain internal commitment to asset management. If you are one of those that mourn the loss of the discipline that CAA brought, then you will need to seek other means to provide external challenge to what you are doing and how you are doing it. For our part, we are already noticing an increase in enquiries from Authorities, for our Asset Management Health Checks.

And now we learn that the Audit Commission as a body is to be scrapped. This creates a further void and there is considerable speculation as to what, if anything will fill it. All we know for certain is that the National Audit Office is likely to take over elements of the Audit Commissions role, albeit on a much reduced scale. We should know more by April 2011.

2. The Decentralisation and Localism Bill We are likely to see this Bill emerge before the end of 2010. It could have a profound impact on your Authority's estate strategy. Three important elements, from its many likely provisions, can be singled out.

- New powers to help communities save local facilities and services threatened with closure
- Give communities the right to bid to take over local state-run services
- Support the creation and expansion of mutuals, co-operatives, charities and social enterprises, and enable these to have much greater involvement in running of public services

We have yet to see the details of the various trigger mechanisms and powers but we need to be thinking about this now. If assets or parts of services are taken over and run by others, what will be the impact on our strategic approach to those services and the estate that supports those services? Who will be taking the service overview across our administrative area? How will all this be integrated?

With the potential for assets moving out of local authority control, what will this mean for statutory compliance issues such as Legionella and asbestos management? There have been high profile cases over the years where things, for whatever reason, have gone wrong. How will the transition be managed? Will such health and safety instances increase? What liability will the Authority, and its Head of Property, retain?

3. Total Place This initiative, often referred to as Place Based Budgets, was established under the previous Government to examine the budgets and spending by public sector bodies within a geographical area. At present it appears to be in something of a state of limbo and likewise the associated Total Assets initiative. The new Coalition Government appear neither to have scrapped it nor publicly and formally endorsed it, so there is something of a policy void. Some hold the view that there is in any case a conflict between this high level geographical approach and the localism agenda that is a central tenet of new Government policy. If Total Place survives, and the information we are getting is that it may, it will probably be under the Place Based Budgets banner.

4. Free Schools and Academies The Academies Act secured a rather rushed Royal Assent on 27th July 2010. It remains early days to understand the full impact of the so-called "Free Schools" this will create. As at 6th August 2010 the number of applications for Academy status is 82 schools across 70 Authorities. If there is appetite within communities this will gather pace, placing strains on a strategic approach to school places and possibly impacting upon costs per pupil in retained schools. And of course premises costs are one of the key elements. Planning guidance will be published by January 2011 that will result in an increase in the number of school sites. By September 2011 the first "free schools" will be in place.

5. BSF and Schools Capital This has been in the media, although interestingly much of the focus has been on communication errors of the lists of schools ejected from the BSF programme, rather than the impact of the decision itself. We all know that the schools estate still needs substantial investment. For LEA Authorities, what happens next? How will the current disrepair in schools be tackled in the absence of BSF? The Department for Education recently launched a Call for Evidence to seek ideas and views on how capital spend for schools should be delivered in the future. This will shape policy for the period 2011 to 2015, and will see BSF either remodelled or replaced. The outcome of this consultation is awaited.

These 5 issues are very important and we will need our wits about us over the coming months to keep up with the pace of change.

## The Economic Climate

Those that believe that the recession is behind us and that the worst is over may be sadly disappointed. When David Laws MP began his all too brief spell as Chief Secretary to the Treasury immediately following the general election he said, "The years of public sector plenty are over." Now you may not have realised that you had been living in times of plenty, but compared to what is to come, you most certainly were.

Forecasts for public spending vary in degree of the big chill anticipated. Until the Spending Review announcements on 20th October 2010 no one can be certain how or where the axe will fall. We hear of Government Departments having to prepare star-chamber submissions showing the impact of 25% and 40% cuts in spending. Where cuts will be proposed will depend on potential priorities and consensus on change can be reached within Government. What is certain is that we are set for a long period of governmental austerity; public spending cuts across the board are inevitable.

For Local Authorities, doing nothing is not an option. The reality of public sector spending cuts must be, and is being, faced. Efficiency drives have been around for a while and some of the efficiency gains that have over the years been claimed might actually be real. But the cuts and efficiencies to come are on a scale hitherto unseen. We are not talking about invisible Gershon-type savings here, but real cuts to budgets. There will simply be less money!

Authorities are now faced with having to think the unthinkable; what services can and should we provide? Or rather, which services can we get away with not providing? Can we preserve jobs and provide services? Which services are core? And what kind of Authority do we want to be as we emerge from this financial crisis? Your Authorities will already be setting out financial plans, in anticipation of the pain to come, as they work up budgets for approval next spring. This may involve ceasing to provide some services, reducing others in scale and generally cutting back or seeking efficiencies in back office operations. It will not be wholly dissimilar to Ireland in the mid 1980s and Canada in the early 1990s.

We have seen examples of Authorities asking their communities what should be kept and what are they prepared to lose, including Stoke City Council's "Let's Talk" campaign which seeks to find £30 million of savings and a similar exercise by Dumfries and Galloway Council seeking to find £20 million. We hear Birmingham City Council is asking staff to take a salary cut to preserve jobs. There are plenty of other examples.

## Implications for the Property Estate

Running Costs Many Authorities will reach the conclusion that it can no longer afford the property estate it has, simply due to the costs of ownership and management. Decisions will need to be made about which assets are too expensive to own and operate and should be sold. Estate Managers will be pivotal in providing current and trend performance data to enable such decisions to be made, and to then manage any disposal process, so begin to consider the following.

- How good is your property performance data?
- Is your data real, accurate and up-to-date?
- Will you now pay the price for previous perfunctory attitude to property performance and PIs?
- You need to be mobilising your data now, on an asset-by-asset basis where you can.

Efficient Portfolio Is this the time you have been waiting for to offload properties that you know to be inefficient or costly? If you hit resistance previously perhaps now you will find yourself pushing at an open door?

Procurement As the Secretary of State for Communities put it last month when commenting on the scope for procurement savings, "Shining a light on spending will help to put savings before cuts. Councils have delivered significant efficiencies but there is still more that can be done to enhance better value for money for hard-pressed local taxpayers and to protect the front line services that so many rely on." What we procure and how we procure it will come under increasing scrutiny. There will be pressure to demonstrate that we are delivering value for money. The Secretary of State has already written to Authorities urging them to be transparent about their spending by publishing online all spending over £500. 31 Authorities are known to have complied so far. Regulations covering this are likely to have effect from January 2011.

Reduced Service Provision If services are slimmed down Authorities will decide they no longer have a need for parts of the property estate, as harsh decisions are taken over stopping or reducing those services. This may result in further outright disposal or demands that organisations seek to collaborate more on shared buildings. As new target operating models are developed for front line services, Asset Managers need to be deeply involved in advising, guiding and delivering the preferred and most efficient and economically sustainable option.

Staff Cuts For many Authorities, huge staff reductions are on the cards that may demand a rethink of your office portfolio and future requirements. You will have a key role in assessing the impact of such reductions, measuring space utilisation and evaluating future property and space requirements. You will also be advising on what to do with surplus space ie should the Authority downsize and re-locate? Can space be separated off and let commercially? On the strategic front, you will need to guide your Authority in avoiding decisions, such as downsizing too far, which could have a detrimental long-term impact.

Realisation values All this talk of property disposal is great but this is not necessarily the best time to be seeking to dispose of assets. What should Authorities do; sell now as the money is desperately needed, or hold fire until values recover? You will be instrumental in guiding your Authority in such decisions.

Investment Portfolio For some Authorities this part of their estate is vital in providing much needed revenue income, and occasional capital receipts. Are there risks that politicians seeking to balance the books could raid the portfolio? What will be your advice to your Authority? Do you know how the estate performs in investment terms and can you demonstrate whether retention or disposal is the best outcome on a property-by-property basis? Should your Authority target expansion of the Investment Portfolio taking advantage of relatively low values, where the revenue return is likely to outstrip the Authority's other investments?

Property Condition The state of repair of most Local Authority buildings is not improving. For most the best that can be hoped for is to tread water and for many the reality is managed decline. Budget cuts threaten maintenance budgets and you will need to be alert to this either in preparing arguments to defeat such calls for cuts by setting out the consequences of them, or, should cuts happen, setting out a plan as to how this will be implemented and managed. Either way, you cannot afford to sit on your hands on this one.

## Implications for Property Service

If the Property Estate is affected, then so will Property Service. It is likely that we are going to have to provide ongoing advice on all those areas I mentioned previously, with no more staff resources than we currently have. In fact there is every likelihood that we will lose staff. I am aware of one Authority that has to make 20% cuts within Property Services. Their reality is that they have nowhere to take money from except from the staff budget. How are we going to manage and what options do we need to consider?

Shared Services Increasingly Authorities are examining the benefits of linking up with other providers of similar services. This could be public/private or public/public. We are seeing more and more examples of back office services, including Property Services, merging or working more closely with those of other Authorities. For example four District Council Legal Services teams across Leicestershire and Warwickshire are to merge, as are Legal Services across Lincolnshire. The same applies to the Education Departments of Westminster City Council and Hammersmith and Fulham and back office services (including Property Services) at Cambridgeshire and Northamptonshire. Questions you may need to examine include:

- Is this something you will need to explore in order to maintain service levels?
- Could this save your Authority money through economies of scale?
- Could this give you access to computerised systems that you currently lack?
- Could a merged service mean reduced work being put out to consultants due to a larger pool of skills and capacity?
- Could procuring in larger packages generate procurement savings?
- Could closer working identify better ways of doing things?

Staff Mutual In August 2010 the Minister for the Cabinet Office, Francis Maude MP, announced 12 pilot pathfinders that will examine the potential benefits of an employee-led mutual, where groups of staff will take over the running of service delivery. None of these pathfinders are in the area of property management, but who knows where this might lead? Would this be something that your teams or merged teams might consider? Perhaps this is something to consider in the context of a possible shared service arrangement?

Staff Training Cuts in budgets could mean cuts in training. There will clearly be risks to CPD compliance for your teams, and risks also to keeping abreast of changes to legislation, regulation and best practice. You will need to examine your training spend and make sure you are getting the best out of it. You will also perhaps need to formalise how training is disseminated.

## Current Challenges and Opportunities

What is clear is that there are a number of significant issues and changes that will affect Property Managers, the properties managed and the services delivered. We need to be aware of these and consider which of them are challenges and which are opportunities. The answer, of course, will vary from Authority to Authority, and will depend upon local issues and characteristics; and on your own outlook to life. Are you a glass half full person or a glass half empty person? This will affect your response to these inevitable changes that we all face.

## Final Thoughts

Does all this mean that, in the words of Albus Dumbledore  
Difficult Times Lie Ahead, Harry, or is what we face a new  
Golden Age of Asset Management?

Either way I leave you with a final message, May your glass  
always be half full.

Chris Brain FRICS  
Senior Construction and  
Property Advisor, CIPFA Property

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## THE AUTHOR:

John Keyes joined DTZ's Consulting team as a Director in August 2010. He has over 15 years' experience in advising on development and property matters, with a particular focus on the public sector. John's role at DTZ currently focuses on advising public sector property occupiers on the property changes that are required as a result of finance and funding constraints and the consequent service delivery changes.

John provides estate and accommodation strategy advice and advises on delivery programmes and delivery vehicles and he has worked extensively for local authorities, colleges and universities, health sector bodies and the emergency services. He has a particular interest in the current agenda of collaboration between public sector organisations, including across different sectors. He is based in Manchester.



## THE AUTHOR:

Laura Stamboulieh is experienced in reviewing public sector operational property and assessing its overall efficiency, suitability and value for money (VFM). Laura gains a full insight into the client's business objectives and user requirements, involving multi-tiered consultation with a full range of internal and external stakeholders. Property 'need' is established balancing the 'demand' for workstations and their proposed intensity of use, together with ancillary accommodation requirements. VFM option assessments are undertaken using a qualitative and quantitative approach that is transparent, holistic and Treasury-compliant. Laura focuses upon the 'delivery' of options using skills she has acquired in development consultancy and public procurement.

Laura's experience includes the Restricted and Competitive Dialogue procedures related to the procurement of property solutions (eg. a new 14 court magistrates court for HMCS) and property delivery vehicles (eg. developer selection exercises to deliver large-scale, mixed use regeneration). A clear definition of the client's minimum project requirements from the outset, together with a meaningful, and transparent, evaluation methodology is essential. Laura has run workshops with Officers and Members in this regard.

Laura has prepared plans for effective asset management. She has been responsible for chairing asset management steering group meetings and liaising with staff with a responsibility for estate and asset management.

She has worked for Donaldsons LLP and DTZ.

# PROPERTY: A DRIVER FOR COLLABORATION IN THE PUBLIC SECTOR

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COLLABORATION

THE DTZ SURVEY – AUGUST 2010

CONCLUSIONS

ACES Presidential Conference  
Newquay, September 2010

ACES Paper No 10.09/6 by

**LAURA STAMBOULIEH,**  
Director Corporate Real Estate Consulting, DTZ

**JOHN KEYES**

Director, DTZ

## INTRODUCTION AND CONTENTS

This paper has been prepared against the background of a difficult financial climate. We have been working with the public sector for many years and can honestly say that we have never experienced such a period of uncertainty. Many of the issues that trouble your minds at present are shared in our minds also.

However, it appears also to be a period of radicalism whereby new ideas and initiatives are encouraged, especially where collaboration within the public sector derives quality and monetary gain.

Collaboration is the focus of this paper. The following contextual issues are especially relevant:

- Addressing the deficit: sector wide job cuts and upheaval, Spending Review 2010
- Localism/"Big Society"/decentralisation
  - Total Place: a coordinated public sector wide approach to meeting customer needs
  - Local Enterprise Partnerships: taking control of the local economy
  - Place Based Budgeting: greater financial autonomy
- Transparent spending: increased scrutiny and rigour
- Encouraging lateral thought and innovation

### Context

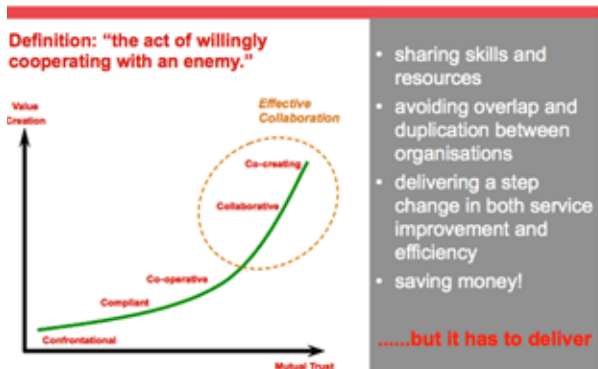
Just after the Election, only a few months ago, we talked a lot about uncertainty. Now we have Coalition Government but you could say that a lot of uncertainty still exists about where we are heading. What we do know is that this Government is going to deal with the deficit very aggressively. We hear a lot about localism, big society, decentralisation, but do not know what that this means in policy terms. We hear also about total place, local enterprise partnerships, new organisations, new way of doing things, new ways of collaborating, but there is no money, so we need to work out how all that is going to happen. We hear Eric Pickles at DCLG and Msrs Osborne and Cameron like Place Based Budgeting, and want to do more of it, but there remains a policy vacuum at the moment about how this is going to play through. And it sounds very bureaucratic to me, under the banner of Transparent Spending, to put every procurement above £500 on the Internet and contra-indicative in a period of cuts.

So we face a big agenda but a very uncertain agenda. A key thing for us is that we have become too accustomed to direction from the centre but I think we are entering a period where there is a policy vacuum. There needs to be more policy direction, but is Government going to leave you to your own devices a lot more than it has over the last 15 years or so? If localism is to mean anything, it strikes me that it means that you are left to find local solutions to local

problems. Again I think that the idea of just getting on with it, just doing it, is really important particularly in the whole arena of collaboration.

## Collaboration

### What is Collaboration and what is the point?



The DTZ definition of collaboration is "the act of willingly cooperating with an enemy." That is said only slightly tongue in cheek as well but it would be interesting to know how many people in local government recognise or even agree with that definition. We think it is very useful to think about this graph as a learning curve, as progress over time. We hear a lot of talk about how difficult the next 5 years are going to be. When after our retirements we think we will say actually 2010/11 was the time when the way we deliver public services in this country changed forever. In our view collaboration is not a quick fix for the next 5 years, we think collaboration is part of how public services are delivered from now on.

This learning curve concept is self-explanatory. Think about building trust with partners and collaborators. Through building trust you begin to generate greater value from service delivery and remember that value creation is not just about saving money, it is about trying to deliver quality services as well. The learning curve brings you into things like training and sharing best practice. Things we need to be doing more of especially at the current time. Think of the learning curve as a constant process that is here to stay for the long term. Perhaps you might wish to consider where you think you sit on that learning curve.

### What types of Collaboration are we seeing?

- Shared senior management
- Asset sharing
- Asset management
- Services (Back-Office)
- Procurement
- Carbon reduction
- Development Zones/LEPs

Clearly we are seeing a lot more than we have ever done and this is a quickening agenda. People are talking about shared senior management and you cannot open a professional magazine now days without reading that two chief executives have come together and are sharing a role. There was an announcement in Merseyside that the Director of Regeneration at Moseley and the Director of Regeneration at Liverpool is the same person. To me this is not about saving on high-level salary costs, but it is about giving the leadership and structure that you need to make sure that collaboration is happening throughout the organisation involved. Similarly we hear a lot about asset sharing, something most of you do almost on a daily basis, but we need to move away from some of the small scale asset sharing and take asset sharing on to a much bigger scale in order to deliver some of the savings and benefits we need.

Much more could be done on asset management, especially facilities management leading to greater economy of scale and delivering more high quality and saving money at the same time. There are lots of lessons around about back office services and in my opinion local government might be behind other public services in this area. DTZ does a lot of work in education and there back office services are being looked at quite closely and progress is being made.

There is a lot of collaborative procurement around too but I am not sure we are getting this right. I think there is more to be done and there is more quality that can be achieved. The public sector is still a bit disjointed about how it procures things. We also hear about local authorities coming together on the carbon reduction agenda and the whole regeneration development agenda. We think that local enterprise partnerships (LEP) may well become geographic basis for collaborations in the future.

### How is Collaboration 'encouraged'?



It is interesting that in Scotland and Wales there is a lot more direction and a legislative context under which collaboration is expected of you. In England, Government was heading in a similar direction through local area agreements and the whole total place agenda. We hear from our contacts in DCLG that there a debate going on about whether you need to be pushed down this road, which strikes me as a ironic as you cannot impose collaboration on people; it is after all about trust. I think senior politicians in the Coalition are not looking to impose; they are looking to provide a framework and let

you get on with it. But policy direction on collaboration will not come through quickly, so I think you just need to get on with it.

## The DTZ Survey – August 2010

The purpose of our survey was to ascertain the role of public sector property in creating effective collaboration opportunities.

The survey was sent to a range of public sector organisations, not just local authorities, and we had a very good response.

- 79% of respondents described their organisation as local government, and
- 64% described their positions as Head of Property or Head of Estates

This looks as though we got a good representation from ACES members.

To start with a positive outcome:

- 82% believe that collaboration can achieve significant results.

However

- 42% of respondents confirmed that no publicly recognised formal collaboration initiative exists within their organisation.

So what are the 58% who believe they are collaborating actually doing and what is the extent of their collaboration?

Obviously collaboration can take many forms; it can range from a monthly meeting with senior partners, through to the creation of an official body delivering things and outcomes. But I wonder when we talk about collaboration what does it mean and what is being achieved.

We asked what the primary focus areas for collaboration were. The overwhelming view was that collaboration was about:

- Rationalising the asset base and achieving savings
- Improving front line services, and
- Creating back-office efficiencies

In terms of the major driver behind collaboration:

- Cost saving is seen as the major driver behind the Government's promotion of collaboration.

If this is right, are we losing sight of service delivery? Is collaboration occurring for the wrong reasons? Is it occurring for long-term reasons or are we just looking at short-term gain? Obviously collaboration can be used effectively to create short-term gain. We are working with an authority at the moment and our analysis of its operational office estate shows there is a significant amount of surplus space. We have discovered that the County Council is seeking representation in the town and is not looking at taking on that surplus space. This form of collaboration is being driven out of cost saving, but one hopes that collaboration in the true sense of shared services and joined-up thinking will come to the

fore as a result. From a longer-term perspective we keep hearing about the need for a more 'holistic' approach and that will require the setting of clear goals and responsibilities if effective collaboration is to occur.

In terms of the other drivers for collaboration, the following were stated:

- Improving the quality of services to customers and the Government's desire for a smaller state are also viewed as important reasons for collaboration.
- Encouraging out of box thinking is regarded as being a moderately important Government driver.

Given the new localism agenda and the radicalism of the Coalition Government we wonder whether the right messages are getting through about challenging you to get out of your comfort zone, think laterally and actually think the unthinkable right now. This takes us back, perhaps to where you fit on to the learning curve graph shown at the start of this paper.

- There is confusion about the extent to which cultural transformation and capital programming targets drive collaboration.

That is interesting. Obviously cultural change has to be at the heart of collaboration, but is it as an input or an output? We think that is probably the latter. It comes down to trust, the more and more you do together, the more and more you collaborate, the more and more trust emerges, and finally the culture changes.

The reference to capital programming is interesting given the very clear messages from Government that there will be no new money. We wonder whether more pooling of resources will emerge, although we do, of course, recognise that there are complexities around funding regimes. Perhaps now is the time for you to push for change and to get the message through to Government about what you need to help you collaborate.

The survey asked for views on Partners and Leadership in a collaborative setting:

- Local Authorities and Health are the most popular collaboration Partners, with Police just behind.
- Invariably Local Authorities adopt the role of Lead Partner.

We were slightly surprised about the Health sector being cited as a 'popular partner' given the recent bad press suggesting that the Health sector is an obstacle, given its 'lumpy' funding regime and an alleged 'silo' mentality. (That is not a DTZ comment by the way). The implications of the White Paper will be interesting. Potentially you may find that you will have to collaborate more with the Health sector, but that could also lead to having to deal with a lot more partners, GPs for example. So we urge the new Government, perhaps with ACES support, to ensure that whatever solutions are put in place they will foster a Total Place approach to service delivery.

The Police Service has also vigorously promoted recent messages about job cuts and reduced service provision, so

we wonder whether it will start to emerge as a key partner as we go forward.

It is not a surprise that local authorities tend to adopt the lead role but, for us, the key issue there is who takes the lead within the authority? Do you feel it is the right person, are you getting the right leaders, and is it your senior team? Are those within the authority who are given the lead role struggling to deliver?

Meanwhile will central government departments be encouraged to collaborate more; for example the CPS, Probation, Court Service and perhaps even Education. Obviously bringing in more and different services will introduce more complexities but now is the time to consider this and get messages across to Government about what will make things work.

The survey asked for views on whether collaboration led to a feeling of 'security':

- 48% believe that collaboration is not seen as a potential threat to their organisation, but 18% disagreed.

But we do not know whether this means that the 18% who disagreed favour resistance and inactivity. Nor do we know much about the 48% that responded positively; who were they, their position within the organisation and what collaboration projects are they pursuing. These are interesting considerations.

So, is there an appetite for collaboration? Our survey demonstrated that:

- There is a great willingness to collaborate further in the short to medium term through choice and not because of Government enforcement.

If the survey is right, and this comment on activity is correct, why are 42% of organisations not collaborating? There is uncertainty around what elements of Government enforcement might be introduced. We do not think that they will be any onerous enforcement measures but suggest that it is time to ask yourself whether doing things 'in your own time' is the right thing. Do you need a slight push, and if so, what is the best way and how can you get that message to Government?

There is no easy heading for this one but:

- 38% felt that there is a significant risk that collaboration initiatives will involve much re-invention of the wheel.

Are these people collaborating already? Or not? Either way, this reiterates the point that there must be a clear reason for collaboration and clear outcomes otherwise there will be limited 'buy-in'.

Is property a driver for collaboration in the public sector?

- 65% believe that shared asset utilisation (and co-location) is the only way in which true collaboration can work.

Is co-location 'worth it'?

- There is an overwhelming view that collaboration leading to co-location is financially advantageous and service delivery benefits will be unlocked and customer service improved.

So why do we not see more successful collaborations of this type? What is preventing effective collaboration? What needs to happen to enable co-location?

- 71% believe that Whitehall does not need to play a lead role in driving forward collaboration leading to co-location.
- 65% believe that the transfer of assets into a joint vehicle to facilitate co-location is not a prerequisite.

Obviously, circumstances will dictate and 'one size does not fit all'. Very careful planning is needed and the public sector should not enter into collaboration for the sake of it.

- 60% are confident that the strategic management capacity of their organisation is not a constraint to effective collaboration.

So, there is the appetite, there is an understanding of the benefits, intervention is not deemed to be required, the strategic management capacity is working. Why is collaboration and co-location not taking place then?

Obstacles to Co-location

- There is a mixed view about the extent to which the following may present obstacles to effective collaboration leading to Co-location.
- Varying funding and decision-making processes.
- The quality of property data held and
- The extent of internal enthusiasm.

There is good news. Decision-making processes are loosening up. The quality of property data is a perennial problem as is the need to get your house in order before you make decisions. DTZ is doing more and more with clients on mapping the estate so that a strategic overview can be taken and some quick messages about the portfolio can emerge.

## The Outlook is Fair !

- **Effective collaboration has been a bit 'patchy', but the opportunity is understood**
- **Local leadership is recognised and encouraged**
- **There is a willingness to collaborate where it is not forced**
- **The perceived obstacles are not insurmountable**
- **The mood is right**



## The Road Ahead

- the extent to which new Government will 'push' collaboration is unknown....
- but ... **collaboration is here to stay** ...
- initiatives must look to the longer term
- 'Property' must be at the heart of effective collaboration
- Local government is best placed to lead and maintain the momentum
- revisit 'dormant' projects and 'think the unthinkable'



That concludes our feedback on The DTZ Survey. We would be very interested to hear your views on whether an update in 2011 would be of use. Thank you again to those of you that took part.

## Conclusions

In conclusion, we believe that now is the time to start revisiting dormant collaboration projects where earlier discussions with partners never got anywhere. Now is the time to 'think the unthinkable' and just do it!

As a final thought - where do you think your organisation sits on the learning curve graph (shown earlier) in terms of collaborating with your partners to achieve a greater outcome to that you could achieve alone?

Will you be at the same place on the graph next year?

Laura Stamboulieh  
Director Corporate Real Estate Consulting, DTZ

John Keyes  
Director, DTZ

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## THE AUTHOR:

Stuart Knight was formerly a partner in the Manchester office of Drivers Jonas working as a strategic consultant and head of local government. In 2010 King Sturge appointed him as head of local government in its consultancy team.

King Sturge is a leading supplier of property services to owners and occupiers in the UK industrial, office, retail, hotels & leisure, healthcare and residential sectors. Their services include agency, asset management, building consultancy, business recovery, corporate real estate services, investment, lease consultancy, planning, valuations and plant and machinery. They are experts in residential land and mixed-use developments and also offer a complete range of financial services to the property sector.

Stuart Knight was appointed to enable King Sturge to secure more work from local authorities, as they look to rationalise their property portfolios to cope with public sector spending cuts. Stuart said: "King Sturge has a great track record of delivering solutions to public sector bodies, and I will be combining this with my skills in the local government arena to provide cost saving and value generating solutions for councils."



## THE AUTHOR:

Paul Smith formed Affinity Consultancy earlier this year. He was previously head of Property Business Services at Hertfordshire County Council, and before that held positions as Proprietor of Facilities Solutions, Regional Account Manager at Procord, Senior Design and Construction Project Manager for IBM UK Ltd and Principle Architect for Lancashire County Council.

His current position relates to the provision of strategic and operational, property related services such as portfolio rightsizing, organizational restructuring, process re-engineering, project management, moves management, design procurement, contract management, interim management and FM advice.

# BEYOND ASSET MANAGEMENT

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CONCLUSIONS

ACES Presidential Conference  
Newquay, September 2010

ACES Paper No 10.09/7 by

**STUART KNIGHT**

Head of Local Government, King Sturge LLP

**PAUL SMITH**

Director, Affinity Consultancy Limited

## BACKGROUND

Stuart Knight was formerly a Chief Officer and Head of Property at Bolton MBC. In 2010 following a period with Drivers Jonas he was appointed as Head of Local Government at King Sturge with the objective of working with local authorities on Asset Management and PPPs as they look to rationalise and improve their property portfolios.

Paul Smith has extensive private sector experience with, for example, IBM in the UK Corporate Property Department and ASDA during their great period of change in Archie Norman's tenure. Having moved over to the public sector he was Principle Architect for Lancashire County Council before becoming Head of Property Business Services with Hertfordshire County Council. Paul formed Affinity Consultancy Services in 2010.

## Agenda

The purpose of this paper is to look beyond asset management and we intend to focus on 3 main areas.

Property today, including current local authority asset management best practice, and an office accommodation case study for Hertfordshire County Council

Demographics including generations, people, young people and cultural change and the next working population

Property tomorrow, and the implications for local authority property



You will all be familiar with the RICS asset management guidance and this model. There is a lot of best practice advice, from the RICS, from CIPFA, from private sector organisations, all telling you how to do asset management. It is all similar

and a bit uninspiring, starting with strategy, leading to AMPs, delivery and then cyclical review. However, there are some jewels that are often ignored yet important. We want to focus on the heart of this particular model where it talks about “leadership and culture”. We want to go right to the business drivers. Asset Management is not really about property, it is about business, and for local government it is actually about delivering services for the community.

## Office Management Strategy

What is our standard asset management model? Generally speaking we expect to see, in asset management terms, assessment ratings of condition, suitability, sufficiency, financial issues, probably environmental factors and other things that lead managers of property to decide the most efficient use of the budget to support services. We would also expect the standard office accommodation model to have some sort of space standards dealing with people space, i.e. square metres per person, as well as for storage and support areas. This would lead on to a space utilisation analysis enabling the property manager to decide if there is excessive space which could, of course, lead to portfolio rationalisation, reductions and down sizing. This process has been going on since the beginning of the eighties and in the public sector we have seen 2 important publications by OGC and DEGW called Working Without Walls, in 2004, and Working Beyond Walls, in 2008. The first one deals with the technical aspects of property management and the second deals far more with people and how people can be used to make our functions effective.

## The Hertfordshire County Council Case Study

That process of evolution can be seen in the Hertfordshire County Council case study. It is one that Paul was personally involved with although it is not the only one of its type; there are many others. Hertfordshire’s project started its life as a space rationalisation programme and throughout there was also talk of other property opportunities such as portfolio outsourcing, sale and leaseback and the like.

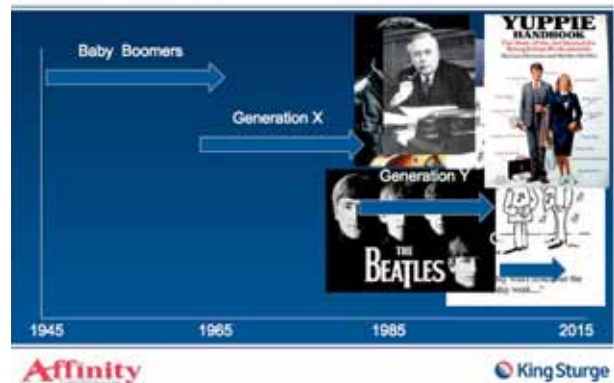
The outcome was to reduce 50 buildings down to 3 and achieve a 30% space reduction. Culturally the programme moved from cellular office space use to open plan and vastly reduced storage to allow that to happen. Multi-functional spaces were used far more efficiently, so too restaurants and cafeterias were used for impromptu meetings and designated meeting rooms were bookable to improve utilisation and track non-attendees. Further cultural change introduced staff mobility and inevitable changes to management styles and techniques. There is invariably resistance to change. We are dealing with human beings, and the resulting staff resistance has to be managed very carefully. It is absolutely essential that communication processes are open, honest, transparent and continuous, and management support from the top team is essential.

As well as the property technical issues the second aspect of the Hertfordshire project was people engagement, why

should they do it? One encouragement is mobile technology. Previously at Hertfordshire County Council Blackberries were allocated on the basis of seniority. Now they are allocated on the basis of need, as now are laptops and electronic writing pads. For social workers this allowed them to write up case notes while they were with the client and to download them there and then, without going back to base. So the staff gain more time in front of the customer.

Flexible working helps the organisation and helps staff to feel empowered and to start to make decisions. They have life style options, they work when they need to, not necessarily on a 9 to 5 basis. And so management styles have to change. It does not matter where you work, or how you work, the important thing is output; work is no longer directive lead. Relationship management becomes far more important. It is not about whether you see a member of staff sitting in front of you at a desk so you know they are present but it is the quality of what is produced; outcomes not inputs. The one intangible and unquantifiable outcome is the motivational benefit. People really did feel empowered and tended to work more and at times that were more beneficial to the customer and not necessarily between the 9 to 5 stereotypical work hours.

### Demographic Change



Now let’s move away from property and think about demographics. This slide illustrates the various generations who are likely to come into the workplace.

**Baby Boomers** were born between 1946 and 1964 and were, for example, children at the time of Elvis Presley and The Beatles. This generation were born after the war, when there was a big increase in the number of births, and there was an expectation for improvement in life. The social demographers tell us this generation regarded themselves as special and they are special. They own 80% of the wealth in the UK; they generate 80% of the leisure and travel industries budgets and own 80% of the high marquee cars in this country. This generation is already retiring and will be out of the work place by 2020.

**Generation X** are those born between 1964 and 1981. This generation is regarded as the high educational achievers generation, and probably because of this that you suddenly start to see a bit more mobility, slightly less family influence,

slightly less parental influence, the roots are starting to be broken, and people are starting to move away from their place of birth. Also throughout the sixties era there was a lot of cultural change going on as a sort of reaction to the war period. This is a period of more freedom, "the swinging sixties."

Generation Y, also called the Millennials, it is the term used for those born after 1981 and up to about 2000, born too young to know what a yuppie is but born during the yuppie self-rewarding, self-centred era. This is an interesting generation in terms of ICT. We are starting to see technology influencing their lives. They are a generation born of baby boomers and are becoming a very difficult generation to manage as they are starting to develop their own identity. What is important to Generation Y are groups and group behaviour, teams and environmental awareness.

Generation Z is the next generation, those that are being born since 2000. We intend to focus on this generation as this is the next generation that is going to come into the work place that we are shaping today. What are they like and who are they? The interesting thing about these generation groupings are their differing perspectives, attitudes, beliefs and behaviours that are influenced, when they are young, by their parents and their peers. And this greatly influences how they will work.

But back to Generation Z, the real technology generation. They are the generation who were born when there was technology, so they know no different. This Generation, unlike earlier ones, care less about groups and teams and are much more individualistic. The reason for this is a lot of these youngsters were not sent to nursery, but were raised by parents, parents who were starting to work part time and less reliant or in need of a 9 to 5 career. Therefore we are starting to see a change as there is a much greater parental impact on these youngsters and that means that they become much more independent and less reliant on individuals around them. But the most striking thing about this particular cohort is how they use technology. Those who have children in this generation will know that they carry the Internet around in their pocket. When they meet with their friends they will talk to them but at the same time they will be texting another group of friends. Everything that they do is portable, everything that they do is done anywhere, and everything they do is instant and wireless.

What does that mean in terms of work? It will mean that they are going to redefine what work is. Work is not somewhere you go, work is an activity, a different mind set. Generation Z will use and rely on technology. We go to offices and buildings to work. They will not do that; they use technology and will have a complete new way of accessing the work environment.

### Generation Z – "The Net Generation"

- Digital natives
- Internet in their pocket
- Self directed
- People of the world
- Avoid real people
- Low attention span
- Impatient and Instant minded
- Individualistic, lack team orientation
- Lack career ambition of previous generations

"Use technology not space"  
"Work is an activity not a place"

Affinity

King Sturge

This sums up Generation Z and it is important to us as property managers. If you are building buildings today, are you building for: -

- Generation Z?
- Or for older people who are going to retire?
- Or the future retirees of Generation X and Generation Y?

### Are you ready for cultural change?

- Conducive environment
  - Change drivers
  - Large budget reductions
  - Threat to job security
  - Demographic shift
- "Cultural change is key to successful service transformation"
- Top team lead initiatives
  - Creation of "survival anxiety"
  - Opportunity to create "psychological safety"

Affinity

King Sturge

Psychologists tell us that cultural change is the key to successful service transformation, or improvement. The two key drivers in the public sector today are budget reduction and service improvement, or at least, in the current financial environment, maintaining services. We think the current environment is conducive to driving cultural change. Are you going to do something with your property portfolio in the next 5 years, or plan something in for the next 5 to 10 year period or do you intend to sit back and do nothing? Of course, you are being proactive; the change drivers are all there. We need to make large budget reductions. There is already a threat to job security. There is a demographic shift happening. Most senior and middle-aged staff will be retiring soon. The generations following are coming through as decision makers and leaders. They will be the ones taking the initiative, but there is going to be a maelstrom in the attitudes

and the requirements of the generations coming through. All the models clearly say that if you intend to carry out cultural change it has to be top team led, and have a major sponsor or sponsoring organisation to have any chance of success. The top team also needs to take along with it its middle management.

The psychologists talk about the creation of "survival anxiety". It sounds terrible, but the creation of that survival anxiety is important so that middle management can go in and talk to staff, talk to the people engage them, consult with them, ask them to be part of the decision making process, the suggestion process which comes forward with solutions. At that stage the psychologists tell us we will reach "psychological safety" where you have an opportunity to go through that process of engaging whilst at the same time managing the conflicting elements. Excitement on one side and fear on the other as its balancing factor, with elements of courage, frustration, judgement and curiosity going on all the time has to be managed very, very carefully.

## A New Paradigm

Paradigm change happens; I think we may already be in a new paradigm. We may misguidedly think that the job is done if we achieve what we saw earlier on as the standard office accommodation model; if we can achieve space reductions then we think that is it. Not now it isn't, it is only part way along the road to change. Cultural change is happening around us, we do not always recognise it because it happens bit by bit, it is insidious then all of a sudden it creeps up on us. Look at some recent headlines, "We must use the skills of Generation Y" and "Why lecturers should put on a good show, Teaching needs to keep up with the class" and "Staff demand control." News of cultural change is starting to infiltrate the press and starting to be discussed. Lecturers are being told that students do not want the old-fashioned classroom lectures. Your staff will demand control. OK staff are demanding, but the point is being made that in the future much more flexibility in work and to work is required, and different and innovative ways of managing staff are required. The language of the past is starting to disappear; "HQ" is already regarded as being an anachronism and is disappearing from the language. Blue chip companies are concerned and have launched training programmes on how to manage the differences in the generations, how will Generation Z and Generation Y get along with Generation X. Cultural change is real. Some major brand names are already suffering because of the cultural differences of the generations coming through.

## Property Vision

Now let's come back to property. As property managers your business strategy has to address this shift. Asset management is not about finances, the property strategy needs to look at what the organisation needs to allow it to function over the coming 5 to 10 years. What sort of office environment will be needed? So far we have considered asset management processes and looked at a good case study at Hertfordshire showing how you can rationalise and deliver efficiency. But the challenge is to think about the new generation of workers and how to respond to their particular needs. Does

this highlight the need to have a different property vision, or a different way of delivering a property vision?

Let's talk about music. When I was a teenager and a new album came out it was a big event. You would go down to a shop and buy the album and then read it from cover to cover, they had covers, a gatefold sleeve. You would bring this record home and you play it through and through. Then CDs came along, new technology for a new generation. Between technology and the new generation they have redefined the music industry and Generation Y and Generation Z talk about iTunes and file sharing. They have forced the music industry to change fundamentally how they now deliver music. In fact now music is increasingly free and the pop industry makes its money from merchandise and concerts. The whole thing has turned on its head so the music industry has responded to the changes forced on them by the Generations.

How does this sort of fundamental change translate into the property sphere? The theme of these papers is "Property; a driver for change". We say that property can be used to drive business strategy and corporate objectives. These are important to your elected Members. This is not about buildings, it is not about property, it is about communities, and it is about localism; that is what your Members are interested in. They do not care about the buildings. This affects what we do as property managers.

Our suggestion for a vision. We say that we should focus on what we describe as fixed community assets. The community needs leisure centres and swimming pools; they are not mobile and serve a particular community. Similarly schools are absolutely in the heart of community as are doctor's surgeries, libraries and that kind of thing. Clearly it could be helpful to talk about bringing some of these activities together, that is all about community and community focus.

Now let us think about the next generation of workers. Office accommodation strategies talk about satellites and hubs but the next generation does not need to work in the same way, as they are far more mobile and are far more aware of technology. They will redefine what it means to come to work. We will no longer talk about hub and spoke but will talk about work places as "constellations" and about office environments being placed in those fixed community assets. This does not mean more buildings. It means fewer buildings as you can incorporate within the library or the leisure centre a base for people to drop in and work. The technology is already available and will become even more sophisticated over the next 5 to 10 years as has happened over the last 5 to 10 years. So we will see new meeting spaces. It will not be necessary to take your officers out of those communities, they can actually meet the Ward Councillors at a community level, there is therefore effectively a community representation of office staff. The outcome is that in getting rid of traditional office space you are bringing about a greater intensification of the use of fixed community assets. WiFi, WiMax, "Cloud technology", facilitate the ability to access the Internet from these enhanced community assets. Staff will have the ability to access their files and any electronic data. There will be less need to link up to hard-wired servers; "collaboration software" is now available to allow two people to work in different locations on the same programme.

In considering how we now could work differently by creating a hub of activity around fixed community assets then the possibility begins to emerge to bring in commercial users to help provide revenue streams for these assets. All too frequently a lot of local authorities I work with think they need to rationalise their portfolios, as they are too big and they ask how do we start? Usually they start with the office estate as this is in their control, but what we are saying is that you are starting at the wrong end. Start at the operational end and dovetail and slide in your office portfolio into that. That, we suggest to you, is a property strategy, a property vision to do something a little bit differently but is it deliverable?

## Funding

Can it be funded? Funding is changing; there are many existing sources

- Capital build
- Invest to save
- Prudential borrowing
- Sale and lease back
- PFI

We find at King Sturge that, because of the credit crunch, a lot of these sources are now being challenged and new ways are being sought to deliver funding solutions more suited to the current financial climate. These are dealt with elsewhere in other papers, although for operational property investment partnerships, income strips and risk and reward joint ventures are new models and ideal to deliver fixed community assets.

## Conclusions

We believe a new property vision and appropriate modern methods of funding means that property can and will deliver service improvement to communities, because we are now able to concentrate on community assets. That is what elected Members want, and what the community is really interested in, as well as of course service improvement. We will also make efficiency savings as we are getting greater intensification of those community assets, so we are starting to address the deficit reduction as well. And the focus is on localism, as we are right there in the community, on message and delivering the localism agenda.

The crux of this paper is cultural change. We are responding to the next generation of workers and the technology that is increasingly going to be available to them.

Property is addressing and helping support the cultural change that is coming. After all paradigm shift happens.

Stuart Knight  
Head of Local Government, King Sturge LLP

Paul Smith  
Director, Affinity Consultancy Limited

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# ASSET



## THE AUTHOR:

Before joining Hillier Parker (now CB Richard Ellis) in 1988, Stephen Clark was Borough Valuer to Woking Borough Council. Prior to this Stephen was an Associate Director of the City based Sedgwick Group plc – responsible for managing its operational estate

During his years with Hillier Parker he headed its specialist public private partnership/PFI unit for four years.

Stephen is a Senior Director in the Regeneration and Development team, advising clients on property strategy, development and procurement issues. From this platform, he has been involved in providing a very wide range of property advice. Some of his key clients include Cornwall Council, Brighton and Hove City Council, City of York Council, London Borough of Barnet, London Borough of Camden, London Borough of Tower Hamlets, Oxford City Council, Royal Borough of Kensington & Chelsea, and many others.

Stephen is also a Non Executive of Guinness Trust and Chairman of its market sales subsidiary Guinness Developments Ltd.



## THE AUTHOR:

Neil Parlett has led specialist development advice to the public sector for more than 20 years. Neil's advice has encompassed shopping centre development (Hamilton, Cambridge, Leamington Spa), residential regeneration (Greenwich, Swindon, Havant), transportation related development (Harlow, York, Brixton) and strategic land sales (Southend, Cambridge, Birmingham).

Neil also advises private sector clients negotiating joint venture terms with public sector organisations including Land Securities, Development Securities and Network Rail.

Neil supports the RICS as an APC assessor.

# PROPERTY PARTNERSHIPS: EMERGING FORMS OF FINANCIAL STRUCTURES

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THE ECONOMIC CONTEXT

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EVERGREEN

CONCLUSIONS

ACES Presidential Conference  
Newquay, September 2010

ACES Paper No 10.09/8 by

**STEPHEN CLARK**

Senior Director, CB Richard Ellis

**PAUL SMITH**

Senior Director, CB Richard Ellis

## INTRODUCTION

This paper follows the conference theme of "Property: A Driver For Change", that is property as a means to an end, and how it fits into a broader context of cultural changes, increased use of technology and increased affluence. In our vision of the future we see the public sector using its assets to create high value jobs. We also see homes as a big issue. We are not building enough homes. Generally housing is not affordable; and the younger generation feel they will never get on the housing ladder.

## Agenda

The topics we are going to cover are: -

- Property objectives in an age of austerity
- Current issues that are affecting property development
- Options in relation to partnership
- A view on how the public sector might approach regeneration partnerships in the future.

## Drivers

In our view the most important local authority drivers are: -

- Reduced Costs
- Capital released
- Regeneration of run down areas
- New jobs
- Increased housing supply and affordability

These are all pretty familiar. The first two are about service efficiency and delivery. In our opinion the regeneration of run down areas will become a bigger priority in two or three years time. From recent discussions with politicians we get the feeling that the Government is very much adopting a free-market approach concerned about cutting public spending and allowing London and the South East to flourish whilst in practice withdrawing finance from other regions. Over the first half of this Parliament we expect to see issues arising out of this but as the next election comes nearer we can expect regeneration to come back up the agenda.

New sources of employment are absolutely the key issue - and not just any old jobs but high value knowledge based - if UK Plc is going to compete on a worldwide basis. Much of the thinking that goes into Urban Development Funding coming out of the European Union is about enabling Europe to compete against the other main economic blocks in the world.

Housing starts are at a record low. Getting on the housing ladder is a big problem for the vast majority of first time buyers. How do you pay back a mortgage of £200,000 to £300,000 out of taxed income and how do you find deposits of £80,000 to £100,000 having just come out of university

with a £30,000 debt? There are some real issues here and solutions will become political priorities in the next few years.

## The Economic Context

Much has been said about the economic outlook and we do not intend to go into detail on this here. However, "austerity" is likely to be with us for a number of years to come and there are persistent fears that there could be a double dip recession. It seems that government will place great emphasis on the private sector generating new employment and nationally it is prepared to see London and the South East take the lead. However, other parts of the country are much more heavily dependent on public sector employment and in the medium term at least, whilst in property terms London might flourish, the situation in relation to the rest of the country looks much less certain.

It is necessary to recognise that developers are in the main severely hamstrung by the economic crisis. There are now only a small number of national house builders whose actions are not either controlled or very closely scrutinised by their lenders. The major players such as Barratts and Taylor Wimpey still have huge debts and some might say are working through developments to pay off the loan book.

So you have to work out who you are working with and what the implications are for the type of partnership you are considering

The banks are adopting an especially cautious stance in relation to property lending. This is exacerbated by the fact equity is both scarce and demands a high price. In order to fund development, the banks are likely to either look for a very high proportion of equity or for an exit position to be assured. In many cases this means either a forward purchaser or an occupier coming into a scheme.

## Development Finance

As noted developers seeking to raise bank finance to undertake developments are facing very considerable challenges. When banks are restricting lending, developers have got to find more equity - and there is not much of that around at the moment! Even an RSL with hundreds of millions on the balance sheet, in looking for bank finance gets offered loan to cost ratios of about 50%. They are also required to guarantee the construction cost, and for the parent organisation to come in if the units are not sold in a year, to basically create the funder's exit.

The cost of borrowing is around 6 or 7% and is very high in relation to base rates. The impact on the property industry is that whilst the banks require 50% of scheme value as equity, this is not generally available to many developers. Even where it is, given the returns now being sought on true equity (which can be as much as 25% per annum), the blended cost of capital is very high. The practical impact is to make funding of early development costs (e.g. in relation to site purchase and infrastructure) very difficult and expensive. This has significant implications in terms of the way that development partnerships might be structured in the current climate.

In addition promoters of regeneration schemes need to recognise that the pool of developers is now much reduced. The net result is that there is much less competition and significantly increased requirements in terms of target profit margins. In order to address these issues the public sector should look to ways of structuring development opportunities so that the need for private sector equity is reduced and the projects are de-risked as far as possible.

## How to Respond

In our view it will be necessary in future for the public sector to consider different bases for taking returns from land and using asset value to help leverage schemes. In addition, mechanisms such as tax incremental financing need to be pursued for pump priming infrastructure.

## Returns from Property Disposals

In the good times it was possible for local authorities to put sites on the market and look forward to receiving substantial upfront payments. Outside of prime locations this is far more difficult to achieve now.

Working for a London based authority recently we evaluated different ways of taking asset value to promote regeneration and increase returns within a regeneration partnership. Options included seeking an upfront payment (which is costly and may exclude many bidders), taking deferred payment for land (this reduces the requirement for initial equity and will increase the number of developers and therefore competition, resulting in reduced profit margins), or putting land value in without any reserve price and treating it as risk capital (and taking a higher proportionate share of the overall return from development).

## Local Authorities as Developers

In order to overcome market constraints, and to maximise their return, some local authorities have actually used prudential borrowing in order to fund and undertake development directly. However, given the squeeze on public sector spending, this is likely to be more difficult in the future and in any event it is unlikely that many public sector bodies will want to expose themselves to the full risks of development (i.e. in relation to construction and sale value), rather than just putting the land in on a risk basis.

## The Role of Partners

On the assumption that local authorities will need to approach property partnerships in a different way in future, it is worth thinking what different types of partners actually bring to projects. The different types of partners include: -

- Development managers
- Equity providers
- Debt providers

Development managers can offer the following services: -

- Planning and design

- Construction procurement
- Sales and marketing
- Accounting

Equity providers on the other hand provide access to cash and, as they are providing the risk capital, are effectively involved in underwriting the exit position.

Debt providers, in practice in the majority of cases banks, enable equity to be leveraged, although at a far lower level than historically was the case.

Remember that in selecting partners, different types of partners bring different qualities and different pricing structures to each project. Therefore, in our view, development partnerships should not be set up on the basis of a “one size fits all” solution. Local authorities need to think very carefully about getting locked into any form of overarching “borough wide” partnership without understanding the dynamics of the specific development opportunities they will be addressing.

## Choice of Partners

In choosing partners, and working in partnership, it is still very important, to be clear about what they are bringing to the table. Remember that pricing and suitability of partners will vary dependant on the circumstances of each scheme and over time, as economic conditions change. Flexibility is key as a badly structured partnership can be very difficult to get out of. We favour the use of property and assets as equity in developments, but think if you are considering asset backed vehicles or using property in that sort of way to leverage development, then very careful thought needs to be given about how you set these up.

## Asset Bond Vehicles

There has been a lot of talk about local asset backed vehicles (LABVs). Under these structures land is put in as equity and private sector partners provide development management services, and potentially private equity as well as development finance. There are two basic approaches that can be adopted. Either the vehicle undertakes or arranges everything to do with a scheme or schemes (including taking construction and sales risk), or alternatively it can adopt more of a “propco” type of approach. In this scenario, the partner will focus its efforts on preparing schemes by achieving planning consent, site assembly, servicing etc and then dispose of ‘clean’ opportunities on a competitive basis in relation to each particular opportunity to sub-developers. In our view the second approach is likely to work better for most local authorities as it avoids being tied into a “jack of all trades” single partner. From our experience, each time a site is put to the market different bidders adopt different assumptions in relation to what will sell, the prices that can be achieved, different design approaches and appetite to risk. Through going down the propco route the public sector has a much better chance of achieving best value as well as increased flexibility.

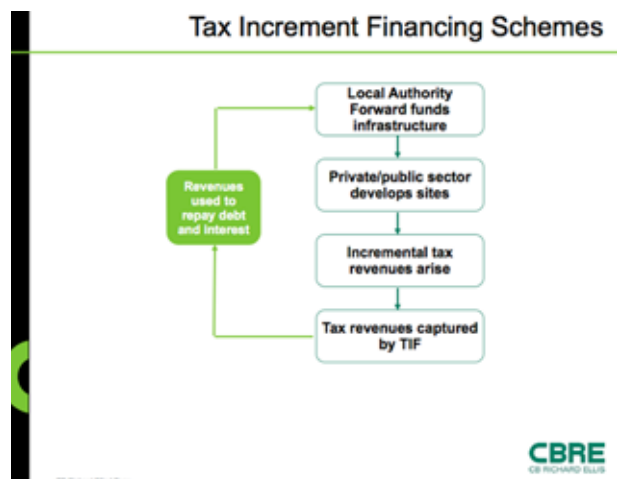
## Infrastructure Funding

Given the high cost of equity and upfront costs, finding new ways of funding infrastructure will be most important in the future. Tax incremental finance (TIF) is back on the agenda and we want to deal with some of the issues that are coming to us as part of some of the work that we are doing in this area. Some authorities have already looked at tax incremental finance in some detail and we hope that our experiences give a useful pointer to how the system might unfold.



To start the process this first example is a project conceived in a time of economic boom when of course projects are much easier to do. The Emirates Stadium is a 60,000 seat stadium and its development has had to address the upgrading of public transport requirements, the relocation of a waste transfer site and a host of Section 106 requirements, some of which have proved to be very difficult to achieve in current financially straightened times. The development was achieved through a combination of enabling development (flats), naming rights, and critically a £260 million bond that was secured against future revenues.

In these more austere times innovative financial models are needed that are aware of the difficult funding and funding capacity constraints that the public sector have to work within. So I will briefly confirm the basic parameters of a TIF based scheme and provide an update on prospective pilot projects. Hopefully I can make a case for TIF prior to the CSR and the expected October white paper.



This is a reasonably good capture of what a TIF comprises. Tax increment financing is a method of forward funding infrastructure works through borrowing against projected incremental tax revenues created by the development scheme. This may be the simplest form of TIF model but there are a number of more advanced models and varieties of model within the basic parameter that have been considered over the last year or so. Irrespective of what model is chosen the public and the private sector work closely in collaboration to deliver successful projects.

Before going into further detail you will appreciate TIF is not the only route to funding major infrastructure works. There have been suggestions of municipal and local government bonds and these and other ideas may come back in the forthcoming white paper. However in a period of financial nervousness I do not think that bonds are a clear-cut alternative. You will be familiar with PFI and PPP. These are relatively complex vehicles and many of these projects are now going through a value for money process and some are being renegotiated and recalibrated to recognise changed financial circumstances. TIF, at its simplest, has the attraction of being entirely related to incremental taxes arising post-development and as there is no new tax created and no loss of tax to account for, it is a win/win. Furthermore, post development the Treasury collects all the incremental taxes once the basic loan payment terms have been completed.

The question that remains is how and when will TIF based projects be selected? Many of you will be aware DCLG invited expressions of interest in Spring 2009. In 2009 there were some 120 expressions of interest from English based local authorities, which is approximately 60% of English local authorities, a significant number of interested parties. Meanwhile this pressure to deliver acceptable and deliverable models is much in the mind of Scottish Government at the moment. TIF is being considered with a good deal of care and we are looking to bring forward acceptable solutions to deal with physical regeneration that simply cannot be done yet South of the border. The Scottish Futures Trust, an agency of the Scottish Government, has entered into detailed discussions with a variety of prospective TIF candidates and there are a number of very good outline proposals that would be useful to look at.

In North Lanarkshire the Council is seeking a £600 million Phase 2 regeneration of Ravenscraig Steelworks, a massive regeneration project.

### Edinburgh Waterfront



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Across in Edinburgh the City Council is working with Forth Ports to regenerate the Edinburgh waterfront, an area of 500 acres at the end of the tram link that takes you through to Edinburgh from the airport. This is a major regeneration undertaking involving employment use, leisure based uses, and a new residential community with retail alongside.

### The City Square, Aberdeen



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In Aberdeen the emphasis is on public and community facilities, a very different type of project.

### Ravenscraig



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## The Buchanan Quarter



Meanwhile across in Glasgow the City Council is working with the Buchanan Partnership, which is a JV involving Land Securities and Henderson Global Investors to secure the £450 million Buchanan Quarter scheme which will provide an enhanced railway station in Queen Street, new and improved city centre car parking, a whole range of public improvement works and an improved concert venue. More importantly it will provide a catalyst to Strathclyde University to bring forward its regeneration proposals and for other partners to bring forward other major regenerations too.

As we develop the business plan for the Scottish Government to consider we have to look at issues of best practice, which we can take from a variety of places, including the USA. The US has extensive experience of TIF based projects.

We need robust financial models; we need to address the tensions between public and private partners and the pressures on public sector financing. We need to ensure that, "but for" TIF there would not be a scheme and the economic case is very clear and robust. The economic case is the driving force and the financial structuring has to recognise the very different roles and risk-taking abilities of the public and private sectors.

All four Scottish councils promoting the projects already discussed have the benefit of in principle political support for TIF. Interestingly the view north of the border is that within existing devolved powers there are the powers to deliver a TIF, and there is no reason why the Scottish Government will have to go through a long and time consuming additional legislation process. However this is not the position south of the border.

Debate on the workings of the Local Government Act 2003 and the Local Government Finance Act 1988, and others, has divided opinion. For some practitioners it is not the legal aspects of TIF that is the problem but the political will to implement that is the blockage. Hopefully the White Paper due to be published shortly will unblock that. In trying to second-guess the mood of Government, many of you will be familiar with the Conservative Control Shift Paper



This was published before the election, part of which deals with TIF, as well as reference to the new homes bonus and municipal bonds. Time will tell whether these initiatives get carried forward into the White Paper. As we contemplate the prospect of the need for decentralisation we have to also confront the fact that not withstanding economic austerity, urban regeneration solutions for most of our towns and cities have never been more urgently needed.

## Urban Development Funds

In our opinion these will become increasingly important in future. The underlying principles behind an urban development fund is that public sector finance is put in as investment rather than grant and returns can be recycled and reinvested in new regeneration projects, on a revolving basis. If the fund focuses activities on public sector sites the land value can be used as match funding, sometimes drawing down other forms of complimentary public sector financial assistance. Through intervening by tipping the scales just enough in favour of development, it should be possible to make the most of public sector resources, optimising leverage and maximising regeneration/economic outputs.

This is the principle behind JESSICA, established under the EU's ERDF regime. Although JESSICA has been around for 2 or 3 years it is only now that the concept is really taking hold. JESSICA funds are currently in the course of being established in the North West of England, Merseyside, Wales, London and Scotland.

## Evergreen

CB Richard Ellis produced the business plan and has been appointed as fund manager in relation to the Evergreen fund, which has recently been selected by the NWDA and EIB to be the conduit for JESSICA finance in relation to the whole of the North West of England, (outside of Merseyside which will have its own Urban Development Fund). Initially the fund will be capitalised at £60 million, comprising £20 million top sliced ERDF, £10 million single programme and £30 million match funding, although over time the aim is to leverage the fund up to £½ billion or more.

Evergreen is structured as an English Limited Partnership consisting of 18 local authorities, supported by 2 pension funds (Greater Manchester and Lancashire) with CB Richard Ellis acting as the General Partners' Real Estate Advisor (GPREA), (the fund's manager).

Initially the fund will concentrate on debt provision (Senior & Subordinated), but if a notification in relation to State Aid can be obtained it will also be able to provide equity—which should improve private sector leverage considerably. The driver behind the majority of urban development funds established under JESSICA is to promote high value knowledge based jobs and infrastructure on a sustainable basis, reflecting the EU Gothenburg and Lisbon treaties. The Evergreen fund is due to go live in January 2011. The project sponsors have great ambitions for it. Initially there is a 10-year life but the business plan anticipates this being extended to 50 years, with liquidity windows every 10 years.

## Conclusions

This has been a very brief overview in relation to the way that the economic downturn and the forthcoming period of austerity are likely to affect development funding and regeneration partnerships in the future. In our view the development of innovative forms of partnership and financial frameworks are now inevitable. It will not be possible to promote schemes on the basis they were in the past.

We believe that if a true understanding of the dynamics of partnership is available and partners are chosen in the right way, substantial additional value and regeneration outputs can be achieved.

It will be very interesting to see how partnership structures evolve in an age of austerity!

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This edition of ASSET has been published with sponsorship from:

