

Summary of conclusions and the public interest

The public interest

10.1. Our terms of reference require us to consider and report whether the BR Board, in their property activities, are 'pursuing a course of conduct which operates against the public interest'. In the preceding five chapters we have made a number of criticisms of various facets of those activities, and put forward proposals for improvement. We do not consider that the shortcomings we have identified, taken singly or together, are so severe as to constitute a course of conduct which operates against the public interest.

Future outlook

10.2. British Rail recognise that the future outlook is a declining workload on property sales, and growing work on developing and managing operational land for commercial purposes. This will be against the background of a steady continuing workload in the management of the unrewarding tail of burdensome properties. We have recommended in Chapter 5 the allocation of specific responsibility for property to a member of the BR Board and the appointment of a Director of Property, to be responsible for maximising the return from the whole estate. The Director will need to take account of the changing workload and its implications for the size and nature of the supporting professional organisation. He will need to consider with the Board member with responsibility for property how far outside advice is necessary, and at what level, and the implications for the organisational structure including the role of part-time directors.

Summary of conclusions

10.3. We now summarise our conclusions on matters where we have criticised the practices and procedures or the performance of British Rail in their property activities, and where we have made recommendations or suggestions for changes or improvements. The full definitive version of each conclusion or recommendation will be found in the paragraph quoted.

	<i>Recommendation Number</i>	<i>Paragraph Number</i>
5. The main issues		British Rail can exploit their estate to financial advantage by making land surplus to operational requirements available for sale or management and/or by arranging developments and other profitable uses of property still in operational use. 5.9
		Decisions to declare operational land surplus to requirements or to make other use of it need the agreement of operational management, while the Property Board undertake the ensuing management or negotiation. 5.13
		It is unsatisfactory that nobody below the Chief Executive is effectively accountable for management of the whole estate. 5.16
	1	A Director of Property should be appointed as a full member of the Railway Executive, and made responsible for maximising the return from the whole estate. 5.18
	2	A member of the BR Board should be given specific responsibility for property matters, which should be accepted as an integral part of the Railway Business and should be included in the remit of one of the Board committees. 5.18
	3	The objective of maximising the return from the estate as a whole should be embodied in rolling programmes for bringing forward surplus land for sale and management and promoting developments and other earnings from operational land. Area targets should be set and monitored and clear accountability established for property assets at all levels of operational management. 5.19
	4	It would not be practicable to value all operational land, but all land for which alternative uses are feasible—not as at present when a specific proposal has been made—should be valued over a period to establish and bring home to management its opportunity cost and the cost effectiveness of its existing use. 5.20
	5	Reputable private firms of surveyors with local knowledge might bring to light opportunities for sale or development which at present escape notice. This possibility should be tested by the trial appointment of such surveyors in selected areas to review the British Rail estate and suggest potential projects. 5.22
	6	The Property Board need to ensure that dealings with local authorities are conducted in a businesslike and expeditious manner. 5.23
		Government policy requiring public sector bodies to dispose of surplus land 'as soon as practicable', coupled with British Rail's cash needs for the main task of running the railway, mean that British Rail are disposed to sell property sooner rather than later, and this may be inconsistent with the Property Board's objective of 'optimum estate management'. 5.24, 5.25

<i>Recommendation Number</i>		<i>Paragraph Number</i>
	It seems likely that the arbitrary timetable originally set for the BRIL disposals placed the Property Board at a bargaining disadvantage and it is difficult to believe that the sales so far have yielded as much as they might have done (see also paragraph 6.47).	5.27
7	In general we support British Rail's position but their short-term cash needs should not be pressed so far that sales are made in ill-considered ways and incur unnecessary loss. Professional judgement should be applied to assessing the scope for enhancing realisable values, eg by realising marriage values and potential development gains.	5.29
8	Cash targets should be set over a longer period to allow for greater flexibility in this respect and should not be subject to sudden adjustments to meet short-term pressures.	5.30
6. Management or sale 9	The clearance procedure for determining that land is no longer needed for operational use is cumbersome and expensive. Shorter and more direct procedures should be used wherever possible and should be positively managed with the responsibility for securing a prompt decision and monitoring progress clearly allocated to an individual manager in each case. (See also paragraph 8.6.)	6.12, 6.13
	The Property Board follow property market practice in estimating current market values of properties available for sale. In considering timing of sales they take account of various factors influencing future rental and capital values by making forecasts discounted back to net present value.	6.17
10	Their use for this purpose of NLF rates to discount cash flows affected by inflation has the perverse effect of applying a low real rate of discount to their assessments which may unduly favour retaining property, contrary to British Rail policy. The Property Board should follow public sector practice and base all discounting consistently on the RRR.	6.40
11	We support the Property Board's reliance on the professional judgement of their regional surveyors but we found failings in valuation practice and shortcomings in supervision and control, particularly with regard to awareness of potential marriage values and overvaluation of geared ground rents. In this area more use of local estate agents and surveyors could be of advantage.	6.41
12	The Property Board should consider providing more guidance on valuation matters to surveyors in regional offices, perhaps by setting up central and regional valuation panels; and supervision should be more rigorous.	6.42

<i>Recommendation Number</i>		<i>Paragraph Number</i>
	The implementation of the decision to dispose quickly of the BRIL portfolio was deficient in that the division of the portfolio into arbitrary price bands was unsound and instructions to avoid distress sales omitted reference to marriage values and to development potential. (See also paragraph 5.27.)	6.47
7. Development and exploitation of the operational estate	The Property Board maintain that they have the estate continuously under review for development opportunities and that there is no need for any system of assigning priorities to projects. We are not satisfied that these arrangements are adequate.	7.7, 7.8
13	Procedures should be established for a more systematic review of development opportunities. Projects should be assigned priorities in rolling programmes which are regularly updated and monitored.	7.9
	External funds have been readily available for development in recent years. We do not accept the view that the Property Board should have greater freedom to participate in risk-taking ventures with a view to profits.	7.12
14	In marketing development sites the Property Board should encourage competition among developers, making use of formal competitive tenders wherever practicable, and should not be led too readily to enter into an exclusive arrangement with a single developer at an early stage. Greater efforts should be made to secure planning permission before marketing developments.	7.20, 7.21
15	Relying on the developer's estimate of eventual value of a development site may place the Property Board in a weak negotiating position. For more valuable sites they should consider obtaining an independent valuation.	7.29
16	In recent years the Property Board appear to have had an undue preference for geared ground rents compared with obtaining a premium for leases at peppercorn rents and we find some of their reasons for this preference unconvincing. The Board should not be biased against the market preference for freeholds or leaseholds at peppercorn rents with premiums which might enable them to obtain a higher proportion of marriage values. They should appraise available options for lease structures.	7.30, 7.31
17	British Rail's investment regulations are geared to the needs of railway engineers and are not easily applied to property investments. The Property Board should prepare a guide to the regulations in a format more readily understood by surveyors.	7.41
18	The regulations do not so provide but for property investments the Property Board's costs of preparing and supervising projects and subsequent management costs should be taken into account in investment appraisals.	7.41

<i>Recommendation Number</i>		<i>Paragraph Number</i>
19	The option of no new investment expenditure should always be tested in Property Board investment appraisals.	7.42
	Having regard to local authority pressures for planning gains and [previous to the 1985 budget] the possibility of setting costs of railway works off against liability to development land tax, we understand the attractions to British Rail of using development gains to finance railway works at the site.	7.51
20	Nevertheless the benefits of such 'hypothecation' should not be over-valued. British Rail should always assess the costs and benefits of such work to the Railway Business and ensure that they get value for money. In each case the total package should be tested against total costs and consideration given to applying the development gains to other investments or to the reduction of debt.	7.52, 7.53
21	Urban arches produce significant rent income and the Property Board have shown initiative in exploiting this resource. There is still room for more adventurous marketing of arches, particularly in town centres.	7.57
22	Procedures for co-ordinating freight and property marketing in relation to rail-served bulk freight depots are unsatisfactory and should be examined with a view to improvement.	7.58
23	The Property Board are aware of the opportunities to exploit the operational estate by station trading and by providing routes for pipelines and cables. There is room for further expansion of income from these sources. In continuing and reinforcing their efforts to market these facilities as well as urban arches, the Board should consider recruiting marketing skills from outside.	7.64
8. Burden- some property	Sales at prices which do not cover the costs incurred may be worthwhile if they bring relief from subsequent management costs. Decisions in this area are hampered by lack of cost information.	8.4, 8.7
	There is no reliable estimate of the future cost of the Property Board's liability to maintain structures on closed branch lines.	8.17
	This liability is not referred to in British Rail's accounts.	8.20
24	It is important to establish a soundly-based estimate of this liability.	8.21
25	Rather than a single figure for each structure upper and lower bounds should be established.	8.23

<i>Recommendation Number</i>		<i>Paragraph Number</i>
26	Commuted payments in respect of future maintenance costs to highway authorities taking over bridges on closed branch lines should do no more than reflect costs estimated on the basis of a sound maintenance policy.	8.24
	The costs of managing small rents exceed revenues by well over £0.5 million.	8.27
	The Property Board have recently set new guidelines for their management.	8.30
27	The Board should seek to improve the net return from small rents wherever practicable and otherwise do everything possible to reduce costs.	8.37
	We question whether the continuing costs associated with closed branch lines are a proper charge on the Railway Business, particularly, for example, the costs of maintaining structures which it is desired to preserve as part of the national heritage. We see an analogy here with the costs of maintaining uneconomic passenger services met in part by PSO grant.	8.40
28	We propose the Department of Transport undertake a thorough review to determine how far current liabilities in respect of property no longer needed for the railway should be removed from British Rail or separately funded.	8.41
9. Operational efficiency in the Property Board	The budgetary control system is satisfactory, but because there are no objective performance measurements we cannot judge whether budgets set sufficiently challenging targets for management.	9.25
29	It is a serious shortcoming that the Property Board do not know accurately the administrative costs associated with different activities. For performance measurement and other purposes they should have a system of work measurement supporting a costing system which provides information on unit costs and portfolio management costs.	9.26
	Planning and monitoring arrangements for estate management activities are not laid down centrally and vary between regions.	9.27
30	The arrangements should be reviewed and the Property Board should seek to develop a common system based on best practice.	9.28
31	There is evidence that supervision and training in management skills is inadequate. There should be additional training and tighter management with stronger leadership from senior management.	9.29
32	There are many well-founded complaints of delay. The Property Board should set standards for speed of response in dealing with outside queries and correspondence and should monitor performance.	9.30

<i>Recommendation Number</i>		<i>Paragraph Number</i>
	The evidence reveals weaknesses in the performance indicators available.	9.32
33	The Board should have a comprehensive range of measures of aggregate performance enabling comparisons to be made internally, externally, and over time. Their current examination of performance indicators should be given priority.	9.32, 9.35
34	The Land Plans are in good order. The Property Board should not risk this valuable resource by delaying essential updating in response to pressures for economy.	9.36
	Provided the Property Board's new computer system MENTOR meets its specification it should be a satisfactory management tool, and capable of expansion to meet other needs for management information.	9.37
35	The present manual system of bookkeeping is labour-intensive and inadequate. The Property Board should have a centrally controlled computer-based integrated financial and management accounting and costing system with on-line data entry. Development of MENTOR to meet this need should not be delayed.	9.56, 9.57
36	We find the system of internal charging adequate, but it would be improved by the better identification of costs.	9.58
37	Internal audit and management response to it are generally satisfactory, but procurement procedures should be subject to more frequent audits.	9.59, 9.60
38	The Property Board are determined to improve efficiency in rent collection and the management of bad debts. Quarterly reports should be made to the Board, and Board members should monitor performance.	9.61
	British Rail's 'minimum spend' policy on maintenance does not necessarily result in maintenance being carried out by the Property Board as cheaply as possible over the longer term.	9.69
	Poor control of maintenance by the Property Board and by tenants (because there are no defined quality standards and maintenance specifications) has led to unnecessary loss of asset value.	9.70
39	The Board should develop a more sophisticated maintenance policy based on whole-life costing, if necessary seeking outside advice. They should define objectives for different sorts of property and derive appropriate standards and specifications as a basis for forward planning and setting priorities.	9.71

<i>Recommendation Number</i>		<i>Paragraph Number</i>
40	Not enough contractors are being invited to bid for goods and services. The Board should increase the number of contractors invited to tender, and may need to increase their lists of approved tenderers.	9.76
41	When tenders are not invited the present arrangements do not ensure value for money. The Board should seek competitive quotations for all save low value orders.	9.77
42	The existing procedures for establishing staffing levels need to be strengthened. The Property Board should make greater use of formal organisation and methods and work study practices.	9.90
43	Pay relativities make it difficult for the Property Board to compete with the private sector for professional skills. This leads to large losses of qualified staff in mid-career.	9.91
	To redress the effects of losing many experienced staff the Board should make greater use of outside consultants, short-term appointments and secondments with the private sector. The procedures for filling vacancies should be reviewed in consultation with the trades unions.	9.93, 9.94

10.4. The terms of reference require us to consider the efficiency and costs of the British Railways Board in its property activities with particular reference to eight topics. These topics and those of our recommendations relevant to each of them are as follows:

- (a) the criteria according to which and procedures by which decisions are taken in the exercise of those activities, including the criteria according to which land is made available for development and/or disposal (recommendations 1, 2, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20, 32 and 38);
- (b) the scope for development and/or disposal of land in respect of which it exercises those activities (recommendations 2, 4, 12, 13, 21 and 23);
- (c) the scope for increased private sector finance for and participation in those activities (recommendations 4, 11, 14, 15, 23, 40 and 43);
- (d) its policy in relation to charges made in the exercise of those activities (recommendations 18 and 36);
- (e) the Board's internal management information systems, including those for attributing to a particular part of the enterprise of the Board and its subsidiaries the cost of land used in that part (recommendations 2, 3, 10, 11, 17, 24, 25, 29, 30, 33, 34, 35, 36, 37, 38 and 41);
- (f) whether the present manner of exercise by the Board of those activities and relationship between that exercise and the exercise of the other activities of the Board and its subsidiaries is in the best financial interest of the Board and its subsidiaries taken as a whole (recommendations 6, 20 and 22);

- (g) the scope for increased commercial use of sites on stations (recommendation 23); and
- (h) its policy in relation to and management of non-operational land which, by reason of its physical characteristics or location, has little or no development potential (recommendations 24, 25, 26, 27 and 28).

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