Local Authority Property
A Management Handbook

The Audit Commission for Local Authorities in England and Wales
Local Authority Property
A Management Handbook

LONDON: Her Majesty's Stationery Office.
This report is a companion volume to the much shorter report: A Management Overview, which deals with strategic issues in the management of local authority property and is aimed primarily at those responsible for these strategic issues – leaders of councils, committee chairmen, chief executives and other chief officers. This report contains more detail of the good practices which will be of interest to property professionals and property users responsible for the day to day management of property. The two reports are structured so that either can be read independently. Read together, there is some overlap of the subject matter, although this report provides more background detail of the strategic issues.
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<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>ACC</td>
<td>Association of County Councils</td>
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<tr>
<td>ADC</td>
<td>Association of District Councils</td>
</tr>
<tr>
<td>AMA</td>
<td>Association of Metropolitan Authorities</td>
</tr>
<tr>
<td>CIPFA</td>
<td>The Chartered Institute of Public Finance and Accountancy</td>
</tr>
<tr>
<td>COPROP</td>
<td>Association of Heads of County Property Departments</td>
</tr>
<tr>
<td>DES</td>
<td>Department of Education and Science</td>
</tr>
<tr>
<td>DHSS</td>
<td>Department of Health and Social Security</td>
</tr>
<tr>
<td>DLO</td>
<td>Direct Labour Organisation</td>
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<tr>
<td>DOE</td>
<td>Department of the Environment</td>
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<tr>
<td>DV</td>
<td>District Valuer</td>
</tr>
<tr>
<td>GRE</td>
<td>Grant-related expenditure</td>
</tr>
<tr>
<td>GRP</td>
<td>Grant-related poundage</td>
</tr>
<tr>
<td>INLOGOV</td>
<td>Institute of Local Government Studies (University of Birmingham)</td>
</tr>
<tr>
<td>LAFIS</td>
<td>Local Authority Financial Information System</td>
</tr>
<tr>
<td>LAMSAC</td>
<td>Local Authorities Management Services and Computer Committee</td>
</tr>
<tr>
<td>LAVA</td>
<td>Local Authority Valuers' Association</td>
</tr>
<tr>
<td>LEA</td>
<td>Local Education Authority</td>
</tr>
<tr>
<td>MAFF</td>
<td>Ministry of Agriculture, Fisheries and Food</td>
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<tr>
<td>MMI</td>
<td>Municipal Mutual Insurance Limited</td>
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<tr>
<td>NHS</td>
<td>National Health Service</td>
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<tr>
<td>PSA</td>
<td>Property Services Agency</td>
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<tr>
<td>RIBA</td>
<td>Royal Institute of British Architects</td>
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<tr>
<td>RICS</td>
<td>The Royal Institution of Chartered Surveyors</td>
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<tr>
<td>RV</td>
<td>Rateable Value</td>
</tr>
<tr>
<td>SCALA</td>
<td>Society of Chief Architects in Local Authorities</td>
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<tr>
<td>SCQS</td>
<td>Society of Chief Quantity Surveyors</td>
</tr>
<tr>
<td>SCT</td>
<td>Society of County Treasurers</td>
</tr>
<tr>
<td>SOLACE</td>
<td>The Society of Local Authority Chief Executives</td>
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</tbody>
</table>
Introduction

1. The provision of services by local authorities requires the use of financial resources to provide manpower, goods and materials, and property (land and buildings). About 2 million full time equivalent employees work in local government in England and Wales at an annual cost of approximately £20 billion. A further £3 billion a year is spent on goods and materials. These costs receive a great deal of attention. In contrast, property, as a resource, has received considerably less.

2. No precise figures are available for the total value of the property resource owned by local authorities. **Excluding housing**, total annual debt charges in England and Wales were £2.7 billion in 1986/87, implying a residual historic cost of £25 billion. Since most local authority property has been in ownership for many years (often inherited through successive local government reorganisations), residual outstanding debt and the consequent debt charges grossly underestimate its value. Estimates of the insurance value alone of buildings owned by a unitary authority such as an outer London borough range up to £500 million (excluding council housing and the investment portfolio held by the local authority superannuation fund, both of which are outside the scope of this study). Many counties have similar sized or even larger holdings. A large shire district might have a portfolio worth over £250 million. Table 1 shows an approximate breakdown of the property portfolio of local government.

TABLE 1: THE REPLACEMENT VALUE OF LOCAL AUTHORITY DIRECT SERVICE PROPERTY
(Excluding land values and property let to tenants)

<table>
<thead>
<tr>
<th>Authority Category</th>
<th>Number of Authorities</th>
<th>Range of Values £million</th>
<th>Total Value £billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inner London Boroughs</td>
<td>12</td>
<td>90–180*</td>
<td>4†</td>
</tr>
<tr>
<td>Outer London Boroughs</td>
<td>20</td>
<td>230–540</td>
<td>8</td>
</tr>
<tr>
<td>Metropolitan Boroughs</td>
<td>36</td>
<td>260–1700</td>
<td>19</td>
</tr>
<tr>
<td>County Councils</td>
<td>47</td>
<td>140–1900</td>
<td>40</td>
</tr>
<tr>
<td>District Councils</td>
<td>333</td>
<td>4–60</td>
<td>4</td>
</tr>
</tbody>
</table>

TOTAL FOR ALL AUTHORITIES £75billion

* excluding ILEA
† including ILEA

Source: Audit Commission study team analysis of data from a sample of authorities.
3. Even in the smaller authorities the value of land and buildings controlled and managed by the council may exceed £100 million. Current 'value' of the total property holdings, including land, of all local authorities in England and Wales (even allowing that the term needs to be interpreted with caution) may be more than £100 billion. A large proportion of the property is used in the direct provision of services, such as education, social services and leisure. The costs of using this 'direct service' property include cleaning, caretaking, rates, maintenance and energy. These property running costs amount to about £4 billion of local government expenditure. Whereas there is a multitude of published statistics on service expenditure and manpower, there is little comparable information on either the value or running costs of property.

4. Property holdings can be surprisingly extensive. A report* by the Centre for Advanced Land Use Studies at the College of Estate Management (Reading) estimated that 60% of the total land area in the City of Manchester is local authority owned. This includes council housing estates but excludes major highways and central government holdings such as those of the NHS*. Comparable figures are 40% in Sheffield and 70% for the central area of Coventry.

5. Even away from the major urban areas, a significant proportion of the land area in town centres may be owned by local authorities, when a shire district's holdings are taken together with the county's property. A non-technical report** for local authority members, produced by a joint working party of CIPFA, RIBA, RICS and SOLACE, illustrates the results of a case study carried out in the centre of Lowestoft, a town with a population of approximately 55,000. In the central area of only 1 square km (100 hectares) there are 26 separate parcels of land owned by Suffolk County Council and 48 owned by Waveney District Council (excluding highways). While some of these holdings are only individual buildings or small strips of land, there are substantial areas of up to 3 hectares occupied as car parks, allotments, council offices, courts and libraries. In total, the two authorities own approaching 20% of the central area. The same report confirms that local authority land holdings in a rural county can also be of major significance. Nearly 7% (21,000 hectares) of the total land area of Cambridgeshire is owned by the county, mostly let out as farms and smallholdings.

6. The nature of the property portfolio varies from authority to authority. Service property holdings (schools, libraries, leisure facilities, elderly persons' homes) reflect the different functions of each type of authority. Such property is normally occupied by local authority staff to provide services directly to the client population, and can be termed direct service property. Many authorities have other service property, primarily held for a specific statutory or social purpose, but which is let to tenants. Smallholdings, council estate shops and often industrial sites and factories fall into this category. This type of property can be termed tenanted service (or indirect service) property since the property is not occupied by the local authority and the service is provided indirectly to the population of the area (e.g. the creation of jobs on the industrial estates). For this type of property the authority needs to become an effective landlord.

7. In addition to service property, many authorities own extensive holdings of other

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*A glossary of abbreviations is provided at the front of the report.
tenanted property, which should be managed in a purely commercial way. City centre offices and shopping centres, for example, are often in the freehold ownership of local authorities – as an investment. These properties may have been part of the corporate estate of the larger towns and cities, or were acquired for the 'benefit, improvement or development' of the area under Section 120 of the Local Government Act 1972. The land may have been acquired for a statutory purpose – comprehensive redevelopment of an area or slum clearance – but the authority has retained the freehold interest after the original purpose has been achieved. Such property is an investment for present and future ratepayers and should be managed accordingly. It can form an important stimulus to regeneration of the urban environment and act as an influence on the quality and attractiveness of urban life. In all authorities there will also be areas of vacant land, some of which is no longer needed for its original purpose, some is held in advance of service requirements.

8. The study has found authorities where property records are incomplete and there is doubt about the extent of the authority's ownership. The reasons and objectives for owning property are rarely defined, especially in the case of property which is not being used directly for the provision of services. There may be a general view that continued ownership by the authority somehow benefits the area, supported by a policy against the disposal of freeholds in any circumstances. Conversely, policy may be that all property which becomes surplus to requirements must immediately be sold. Such generalisations or dogma are not an adequate basis for effective management. The Commission recommends neither the 'keep all' nor 'sell all' attitude, but rather encourages authorities to adopt policies which lead to rational decisions about the advantages and disadvantages of ownership. The benefits of continued ownership by the authority, whether to the recipients of direct services or to ratepayers, must be viewed in relation to the value of the property held, (and hence other uses of the money foregone if ownership is retained) and its running costs.

9. Good management of all types of property in local authorities is just as important as the management of the other resources. For the effective, efficient and economic delivery of services, authorities must make the best use of their property, for example:

- Property of the wrong type (e.g. social services homes in the wrong place, inadequate and outdated library facilities) will lower the quality of service provided.
- Buildings of the wrong size (e.g. under-occupied schools) tie up capital resources and waste revenue which could be better employed for service delivery or debt redemption and, in addition, may lead to an inefficient use of non-property resources (e.g. a school with fewer pupils is likely to need a lower pupil-teacher ratio to maintain a balanced curriculum).
- A waste of money may result from inadequate management of property running costs (such as energy, cleaning, etc).

Authorities must also ensure that the building stock is fit for its purpose, as needs change. In addition, the management of the portfolio of tenanted property (held either for the provision of indirect services or for investment) must reflect its value. At a time when there are many conflicting calls on scarce resources, money tied up in property of this kind must produce an adequate return.

10. In the past, local authorities have adopted a largely passive approach to property management, concentrating on service delivery and ignoring the resource. Many authorities now recognise that a different approach is required, in response to the pressures being
experienced by authorities of every type, size and political complexion. Examples of these pressures include:

- Decreasing capital allocations, coupled with constraints on revenue expenditure (and the ultimate threat of rate-capping), make it vital that the best use is made of all available resources, including the 'forgotten resource' – property, and that property running costs (which can amount to 15 – 20% of the total cost of providing a service) are controlled.

- Service needs and priorities are changing as a result of demographic and other changes. For example, the total number of primary and secondary school children has fallen by nearly 20% in the last ten years, while the total number of elderly over 85 is expected to increase by more than 30% by 1996. As a result, capital and revenue resources may need to be redirected from the education service towards facilities for the elderly (e.g. elderly persons' homes, home helps and other domiciliary services).

- There is growing concern about the physical state of much local authority property: despite the misgivings of property professionals, expenditure on essential repairs and maintenance has for many years been skimmed in favour of conflicting short term demands on resources, deemed to be of higher priority. Most land and buildings owned by authorities will still be an asset belonging to the local community long after the current generation of officers and members has retired or been voted out of office. Every authority has the responsibility of maintaining in good condition the assets to be used for the provision of services for future generations.

11. Property management can be defined in two inter-related ways: strategic management of the property portfolio, and day to day management of property running costs. This holds true for any organisation which owns and uses property. However, property management in a local authority is far from simple and must reflect the constraints of local democracy not experienced by, for example, a commercial property company. Rational property portfolio management decisions must be convincing to the local electorate – many local authority members and officers have experienced the emotive opposition to school closures, or the rationalisation of surplus playing fields. Actions such as these may be unpopular but the arguments against action must not be paramount and must not be accepted simply because they represent the 'easy' option. Local authorities need to strike a balance between immediate financial and service pressures and the long term needs and wishes of the community. (Strategic management of the tenanted property and day to day cost management should in any case not be subject to the same pressures).

12. Some property management issues have been considered in previous Audit Commission special studies of non-teaching costs, care for the elderly, and energy*. The purpose of this latest study, which began in April 1986, is to draw together the findings of the earlier studies into the context of a strategy for the management of all property. A study team, consisting of a permanent member of the Commission staff, Greg Birdseye, and an auditor seconded from the District Audit Service, Nick Ward, has carried out the work, under the direction of a senior manager in the Audit Commission's Special Studies

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Directorate, Doug Edmonds. Valuable assistance has been obtained from two senior local government officers engaged as part-time advisers for the duration of the study – Alan Meikle CBE, County Property Officer of Hereford and Worcester CC on secondment from his authority, and Bill Miles, former Chief Executive of Gateshead MDC and then of West Yorkshire CC and more recently a consultant on property matters (including the Department of the Environment’s Property Advisory Group). In addition, experience was drawn from an advisory group of local government chief officers nominated by the local authority associations and reflecting the professional bodies concerned with the management and use of property.

13. The study team has also been able to draw on a wide range of published material produced by, among others, COPROP, RICS, SOLACE and CIPFA and also to benefit from the experiences of bodies outside local government such as the National Health Service and the Property Services Agency. Particular mention must be made of the assistance given by members of SCALA and COPROP, whose working parties examined various technical matters. For specific issues, use was made of external consultants including Drivers Jonas and Partners (Chartered Surveyors), Dr Tony Travers of the London School of Economics, and NBA Construction Consultants. Constructive comments were also provided by the District Auditors’ Society. As in previous studies, consultation, both formal and informal, has taken place with appropriate bodies as required by section 26 of the Local Government Finance Act 1982. This has involved central government, the local authority associations, trades unions, and both users and providers of property.

14. The study team visited three authorities initially for in-depth study, followed by visits of up to two weeks to a further eight authorities. These authorities were chosen to reflect the differing property holdings and problems experienced by authorities of different types, sizes and location. The study authorities consisted of four counties, two London boroughs, three metropolitan districts and two shire districts.

15. In addition to these in-depth visits, short visits were made to a further 21 authorities to explore issues of particular relevance. Summary information on management arrangements and property running costs was also obtained from 26 other authorities using the assistance of local district audit staff. The Commission would like to thank the members and officers of all these authorities for their willing assistance and co-operation, without which it would have been impossible to carry out the study. As with all the Commission’s reports, however, responsibility for the conclusions rests with the Commission alone.

... *

16. The long term nature of this resource means it is difficult to provide convincing proof of a generally applicable ‘right way’ of managing local authority property since the consequences of decisions taken today may not become apparent for many years. Authorities that have adopted a more imaginative approach are still only at the beginning of the road. Despite their many achievements there is still considerable scope for further improvement in local government performance in property management:

- Not all local authorities know what they own and many are not clear why they own it. Very few know its value. Chapter 1 shows that insufficient attention is paid to matching the authority’s property holdings (with their consequent opportunity costs) to the objectives and plans of the authority. As a result there is
waste, both in terms of under-utilised property and the returns that are obtained from some property holdings.

• Few authorities know the full cost of using property, so there is insufficient control of these costs. Chapter 2 discusses the effect of these shortcomings, identifies the relative importance of different items and shows how costs can be controlled.

• Management arrangements and systems must be improved. Chapter 3 explores the committee and officer arrangements appropriate to each type of authority and the need for incentives to stimulate action.

• The appropriate action must be taken. Chapter 4 summarises the required actions for both local and central government.

Four appendices provide further details of: the principles of computerised property record systems, a review of office accommodation space standards, definitions of property running cost items and a model for estimating future maintenance need.
1. Making the Best Use of Property

THE RANGE OF PROPERTY HOLDINGS

17. In management terms, a local authority’s property portfolio can be divided into three main categories:

- **Direct service property**, i.e. property occupied by local authority staff for the direct provision of its services, or to provide administrative support for those services. This category includes elderly persons’ homes, schools and offices.

- **Tenanted property**, i.e. authority-owned property let to third parties. This category includes:
  - tenanted property held to provide indirect services, such as industrial starter units, or community facilities – property to which a degree of subsidy is likely to be given,
  - commercial property, e.g. town centre holdings, offices, and industrial estates – property which is held as an investment and expected to achieve a commercial rate of return.

- **Vacant property**, i.e. property in the ownership of an authority, surplus to current requirements and not occupied either by the authority or by a third party, and property used for some temporary purpose in advance of the main purpose for which it was acquired.

18. The management issues are different for each type of property as is shown in Exhibit 1. The balance between service property and investment property, and the size of the portfolio itself, depends both on the functions and on the size of the authority. Exhibit 2 illustrates in schematic form the range of property holdings by type of authority. At one extreme, the metropolitan districts and London boroughs often have large holdings of both types of property. At the other extreme a small rural shire district may have only limited amounts of property, though large shire districts – typically the former cities and county boroughs up to the 1974 reorganisation – may well have large city centre investment property portfolios. Finally, county councils often own large amounts of direct service property (and indeed even more so than the metropolitan authorities), but relatively small amounts of other property. These distinctions are important in the consideration of 'good practice' in the management of local authority property. An arrangement which may be highly relevant in one type of authority may not be at all appropriate in another.

19. The type and size of the authority are not the only factors which influence the relative importance of the property management issues in different authorities. Comparisons between authorities must recognise that land values are very different between, for example, a shire county in south-east England and one in north Wales. In the former, the most important issue may be to ensure that surplus property is brought to the market, while in the latter this may be almost irrelevant compared with efforts to control property running costs and the need to generate employment. (However even in comparatively low value areas...
Exhibit 1

PROPERTY TYPES AND MANAGEMENT ISSUES

The management issues are different for each type of property

<table>
<thead>
<tr>
<th>TYPES OF PROPERTY</th>
<th>MANAGEMENT ISSUES</th>
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<tbody>
<tr>
<td><strong>A HELD FOR DIRECT SERVICE PROVISION</strong></td>
<td>Opportunity cost of site</td>
</tr>
<tr>
<td>Occupied by local authority staff to provide direct services</td>
<td>Utilisation</td>
</tr>
<tr>
<td>Schools</td>
<td>Property running costs</td>
</tr>
<tr>
<td>Social services establishments</td>
<td>Additional uses if underoccupied</td>
</tr>
<tr>
<td>Offices</td>
<td>Acquisition and disposal at the right time and value</td>
</tr>
<tr>
<td>Leisure centres, swimming pools</td>
<td></td>
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<tr>
<td>Open space and sports grounds</td>
<td></td>
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<tr>
<td>Car parks</td>
<td></td>
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<tr>
<td>Theatres</td>
<td></td>
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<tr>
<td>Fire and police stations, etc.</td>
<td></td>
</tr>
<tr>
<td><strong>B TENANTED PROPERTY</strong></td>
<td></td>
</tr>
<tr>
<td><strong>(i) INDIRECT SERVICE PROPERTY</strong></td>
<td></td>
</tr>
<tr>
<td>Industrial starter units</td>
<td></td>
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<tr>
<td>Farms and smallholdings</td>
<td></td>
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<tr>
<td>Council estate shops, etc.</td>
<td></td>
</tr>
<tr>
<td><strong>(ii) INVESTMENT PROPERTY</strong></td>
<td></td>
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<tr>
<td>Commercial offices</td>
<td></td>
</tr>
<tr>
<td>Shopping centres</td>
<td></td>
</tr>
<tr>
<td>Completed industrial estates</td>
<td></td>
</tr>
<tr>
<td><strong>C VACANT PROPERTY</strong></td>
<td></td>
</tr>
<tr>
<td>Land held in advance of requirements</td>
<td>Other uses</td>
</tr>
<tr>
<td>Property surplus to service requirements</td>
<td>How long in advance</td>
</tr>
<tr>
<td></td>
<td>Speed and value of disposal</td>
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</table>
there can still be valuable town centre sites). Market rents for commercial property may vary significantly within a given urban area let alone between a town in northern England and one in the south. Equally, measures of a local authority’s success in industrial development need to reflect the local economic situation. Political attitudes to holding property also vary. Some authorities see the ownership of land and buildings as an integral part of the effort to provide comprehensive services to the community; others may wish to control the minimum property consistent with their statutory responsibilities. Such considerations do not preclude the application of good management principles for property in all authorities, and in particular, a recognition of the opportunity costs of property ownership.

20. This chapter is concerned with the portfolio management issues set out in Exhibit 1, as they are affected by location and political choices. Local authorities need to know the answers to questions such as:

- How much direct service property is needed?
- How can wider use be made of existing property?
- What are the benefits arising from the tenanted service portfolio?
- How should the performance of the investment portfolio be measured and improved?

Other main issues relating to property running costs and the condition of buildings are dealt with in Chapter 2, and the overall management arrangements in respect of property in Chapter 3.
HOW MUCH PROPERTY IS NEEDED?

21. The Audit Commission has already drawn attention to the problems facing local authorities as a result of demographic trends. For example, as Exhibit 3 shows, the number of very elderly people (75 and over) has increased over the last ten years by 27%, and the number of people aged 85 and over is projected to increase by 37% over the next ten years.

Exhibit 3

DEMOGRAPHIC CHANGES
(England and Wales)

Demographic trends are changing the need for property

. . . . . . . school rolls will continue to decline until the 1990s

Source: Advisory Committee on the Supply and Education of Teachers (ACSET)

. . . . . . . whilst the number of very elderly people continues to rise

Source: OPCS figures to 1986 and Government Actuary's Department 1983-based forecasts
These increases will continue to have a major impact on the provision of services, such as day centres, sheltered housing, domiciliary services and residential homes. Equally, the exhibit shows that there have been significant changes in local authority client groups at the opposite end of the age scale. From the peak in 1979 to the trough in 1991 the fall in secondary school pupils is from 4.1 million to 3.0 million, a drop of 27%. In many areas, the fall is likely to be much greater than this. Even though the number of primary school pupils is now again beginning to rise it will be many years before total pupil numbers begin to approach the previous levels.

22. These figures illustrate just one aspect of the recurring need to adjust the nature and level of service provision to meet the changing circumstances and size of client groups. Less dramatic but as fundamental are the changes in the nature of service felt to be appropriate by the professionals concerned. Examples of these are shown in Exhibit 4.

Exhibit 4

CHANGING SERVICE NEEDS

Policy and other changes also affect property

- Higher levels of fostering and adoption
- More community care for the elderly and growth of private sector homes
- Rundown of long stay institutions for mentally ill and handicapped people
- Increased leisure time and changing tastes
- Greater police mobility
- Increased fire hazards
- Fewer children's homes
- Less local authority residential care
- Additional community-based facilities required
- More cultural, leisure and recreation services
- Fewer rural police stations
- Better fire cover
23. Such influences are not new. Local government has always had both to respond to, and to initiate change in order to maintain the effectiveness of its service delivery. More recently, however, the pace of change has increased and authorities must correspondingly react with more vigour than in the past, not least in ensuring that the property used to provide the services is appropriate to the new demands both in the short term and in anticipation of the development of improved standards in the future. Failure to consider property as a *dynamic* resource, rather than as the product of historical circumstances, may hinder an authority’s ability to deliver its services and will result in missed opportunities to provide the services appropriate to today’s, let alone tomorrow’s, requirements. Worse, failure to recycle the resources of land and buildings currently available will mean that local authorities might be unable to fund the essential service provisions of the future. Constraints on borrowing make it even more important that existing resources, no longer required for their previous use, be recycled.

24. Local authorities can benefit substantially from disposing of unwanted property although there appears to be considerable variation in the ability and the will of authorities to generate capital receipts this way. Some authorities have been able to generate substantial receipts from the sale of non-housing property, while others have been markedly less successful, as Exhibit 5 shows. These differences between authorities would appear to be

**Exhibit 5**

**NON-HOUSING CAPITAL RECEIPTS 1985-86**

Capital receipts vary considerably, even among individual local authorities in the same region

![Graph showing non-housing capital receipts]

Source: CIPFA Capital Expenditure and Debt Financing Statistics, 1985-86
much greater that can be accounted for by prevailing regional land values and existing property 'wealth' although this cannot of course be proven since there is no national data. In aggregate, as Table 2 shows, total non-housing capital receipts in England and Wales have been steadily rising over the last five years and are now running at a level of over £0.5 billion a year (although the 1986-87 figure has been inflated by receipts from disposals by the Residuary Bodies). Receipts are increasingly significant in relation to total non-housing capital allocations as Exhibit 6 shows. The figures serve to emphasize the importance of local authorities' efforts to identify and dispose of unwanted property assets. However, many in local government (the RICS for example, in its evidence to the Commission) are forecasting a decline in receipts over the next few years as authorities may find it difficult to maintain the flow of disposals without some further relaxation of the capital control system to assist property rationalisation.

**TABLE 2: CAPITAL RECEIPTS (NON-HOUSING)**

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<tr>
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<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>London</td>
<td>£12.20</td>
<td>10.10</td>
<td>13.80</td>
<td>17.00</td>
<td>21.00</td>
<td>25.90</td>
</tr>
<tr>
<td>Metropolitan districts</td>
<td>5.00</td>
<td>5.90</td>
<td>4.70</td>
<td>5.20</td>
<td>4.20</td>
<td>14.30</td>
</tr>
<tr>
<td>Shire districts</td>
<td>2.40</td>
<td>4.50</td>
<td>3.90</td>
<td>5.50</td>
<td>5.40</td>
<td>9.00</td>
</tr>
<tr>
<td>Counties</td>
<td>3.90</td>
<td>4.50</td>
<td>5.70</td>
<td>6.30</td>
<td>7.50</td>
<td>8.60</td>
</tr>
<tr>
<td><strong>Wales</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Counties &amp; districts</td>
<td>3.90</td>
<td>5.70</td>
<td>5.30</td>
<td>7.30</td>
<td>4.60</td>
<td>3.90</td>
</tr>
<tr>
<td><strong>Overall</strong></td>
<td>6.70</td>
<td>8.20</td>
<td>8.80</td>
<td>10.70</td>
<td>11.60</td>
<td>17.20</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>England and Wales:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total non-housing receipts (£ million)</td>
<td>330</td>
<td>410</td>
<td>440</td>
<td>530</td>
<td>580</td>
<td>860</td>
</tr>
<tr>
<td>Non-housing capital allocations (£ million)</td>
<td>2,450</td>
<td>2,930</td>
<td>2,550</td>
<td>2,300</td>
<td>2,010</td>
<td>1,450</td>
</tr>
</tbody>
</table>

Source: Department of the Environment, Welsh Office

There are other advantages in disposing of surplus property. A ready supply of land may stimulate the local private economy and encourage other private venture capital investment. Local employment is boosted because property (especially land) is rarely bought and left idle.

25. Of course, surplus property does not necessarily have to be sold, to raise capital receipts. There may be other uses for it. An example of this is illustrated in Case Study 1. A redundant education (teacher training) college was adapted to create a new civic centre for
Capital receipts are an increasingly important source of capital finance.

Source: Department of the Environment, Welsh Office

the London Borough of Bromley. Another example of change of use is the provision of special sheltered housing by conversion of a redundant primary school in the London Borough of Croydon in the early 1980s. There are very many other instances. A change of use of a different kind is to be found in the conversion of a cinema in Droitwich (acquired by the authority during a redevelopment scheme) to a library. Conversions such as these are often the result of imaginative proposals for the re-use of historic buildings which may well otherwise fall into disrepair.

26. Many authorities feel that recycling of resources is not assisted by current central government controls on the re-use of capital receipts. Currently English local authorities can only use 30% of non-housing capital receipts to augment capital allocations in the year in which the receipt is realised (although in each following year, because of the 'cascade principle', 30% of any previously unused capital receipt can also be used). An exception to the control system is where 100% of capital receipts can be used for capital repairs and maintenance items. On any unapplied capital receipts the interest which they generate can support revenue expenditure. Capital receipts can also be used for the redemption of debt thus also bringing revenue benefits. A balance therefore needs to be struck between investing in the life of the asset and other conflicting demands.
27. Central government has progressively reduced the proportion of capital receipts that can be applied in any one year in an attempt to retain control (for macro-economic reasons) over the total volume of local government capital expenditure. The possibility of further reductions means their local authorities cannot accurately assess their likely future spending power. The uncertainty militates against realistic planning. Many authorities now feel that the control system acts as a disincentive to carry out property rationalisation, particularly where some of the rationalisation decisions are already unpopular (e.g. school closures). Any one-off property rationalisation scheme which required substantial initial capital investment will inevitably be more difficult to achieve if authorities are unable to draw on the balance of accumulated receipts from previous property rationalisation programmes. Even though the government has recently to some extent recognised these problems by allowing the so called 'back to back' schemes (where expenditure for land acquisition is matched within a short period by a capital receipt), the proposals are so tightly constrained that their use is likely to be very limited. The control system (and the capital allocations for property rationalisation schemes) fail to recognise the need for greater flexibility particularly in areas where land values, and hence the value of capital receipts, are low.
28. Despite these difficulties, many authorities have made significant achievements. The rationalisation of property, particularly over a period of years, can not only improve service delivery but also give benefits to the local authority in terms of (eventual) capital spending power, immediate revenue benefits from interest received and reductions to property running costs. Local authorities should not be deterred from instituting an on-going programme of property reviews in order to achieve a balance between service need and the property holdings. Reviews can take several forms as shown in Exhibit 7. In order to carry out these reviews the first essential is an up to date system to provide property information, although the absence of detailed information must not of course be used as an excuse for delaying action.

Exhibit 7

PROPERTY REVIEW

There are three different types of property review

<table>
<thead>
<tr>
<th>SINGLE SERVICE REVIEW</th>
</tr>
</thead>
<tbody>
<tr>
<td>An examination of some or all of its property holdings by an individual service, e.g. the social services department might decide to review current utilisation of children’s homes in response to falling numbers in care</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>SINGLE PROPERTY REVIEW</th>
</tr>
</thead>
<tbody>
<tr>
<td>An investigation into alternative uses of an individual building or site no longer required for its original purpose e.g. an old swimming bath, following the opening of a new leisure complex</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CORPORATE AREA REVIEW</th>
</tr>
</thead>
<tbody>
<tr>
<td>A review of all property owned by the local authority in a defined area</td>
</tr>
</tbody>
</table>

PROPERTY INFORMATION

29. Every authority will have at least some basic information on its property holdings, in the form of deeds and records (some of which may well be held in a computer system). However the adequacy of this information varies considerably, with the result that many authorities cannot easily carry out reviews of their property. At the simplest level, the property record consists of the legal deeds which record the authority’s title to its property and a land terrier which typically shows areas concerned and purchase details. In some authorities even this fundamental information is incomplete or not easily accessible. Given the long-term nature of the property resource and the successive reorganisations experienced by most authorities, it is not uncommon to find that these systems have been unable to cope. Maintenance of the terrier is often regarded as low priority, low status work and is consequently neglected. In one authority visited by the study team an estates officer admitted that the terrier was no more than 70% accurate. This same authority had lost a
piece of land when an adjacent land-owner assumed possessory title, having enclosed the land 15 years earlier without detection. *All authorities should bring their terriers up to date and maintain a reliable index of property deeds.*

30. The land terrier does not itself provide sufficient information for good property management. Of more importance for property review work is knowledge of the buildings occupying the land. A wide range of information is required, together with information from the financial systems. Authorities must beware, however, of wasting time and effort collecting information that, although desirable, may not be needed for strategic decision making. They should instead concentrate on the essential core information. A working party set up by COPROP and SCALA examined the core information requirements for most direct service property. The report defines a hierarchy of data, starting with information on the fixed attributes of a building, such as age, area, capacity and construction type. *Each building should have a unique property reference number (UPRN)* which would be used to reference this core data back to the terrier and legal deeds and to other information relating to the building use—property running costs from the financial information system, maintenance records and energy consumption. There is an important distinction between this last type of ‘transient’ data and the fixed attributes above. The *transient data should be the responsibility of the person or department which needs the information,* be it central departments such as finance or architects, or the service department concerned; the *fixed data must always be held and maintained centrally* so that it is always accurate and current. Appendix A discusses these issues in more detail.

31. Property information is required for both the service property and the investment portfolio, although of course the information needs are not identical. Information systems of this nature are likely to be computerised, not least because of the size of the property holdings of most authorities. There are several commercial computer packages available for property records although none has been produced specifically for local government. Some authorities have responded to the lack of proprietary packages by developing in-house systems. As with all such development there is a need to define precisely what is required from a system and to carry out a cost/benefit appraisal before starting work. *Any information over and above the core information requirements of each service department should only be built in to the system if there is a clear justification.* The information requirements for tenanted property are primarily concerned with the landlord’s functions (e.g. rent review dates, name of tenant, conditions of lease, etc). There is no need for this information to be part of the overall property data base, and one of the commercially available computer packages may well be suitable on a stand-alone basis. Some authorities that have purchased a package for commercial property are investigating whether it could also be adapted to provide sufficient information for the service property. Lincolnshire CC, for example, has started to do this.

32. The basic information for property review work need not necessarily be on computer. The Land and Buildings Department at Northamptonshire CC, for example, has produced a basic property record consisting of a single sheet of paper for each property, containing details of the buildings (floor area, capacity, etc), an assessment of its condition, a summary of the property running costs and a brief comment on its future use. Exhibit 8 shows an example of one of these record sheets. The compilation of this information, although initially time consuming, is relatively easy provided that attention is focused on the essential requirements only. Estimates of floor areas, for example, are all that are needed initially for a strategic property review or an overview of property running costs. The data can later be refined by remeasurement when time allows.
A BASIC PROPERTY RECORD
(Northants CC, Land and Buildings Department)

Property review does not have to wait for a computer data base, provided the basic record is well structured.

---

**GENERAL**

<table>
<thead>
<tr>
<th>Use</th>
<th>Elderly Persons' Home</th>
<th>Tenure</th>
<th>Freehold</th>
<th>Floor Area</th>
<th>1900m²</th>
<th>Site Area</th>
<th>0.31ha</th>
</tr>
</thead>
<tbody>
<tr>
<td>Built</td>
<td>1931 Extended 1966</td>
<td>Capacity Designed</td>
<td>54</td>
<td>Capacity Agreed</td>
<td>54</td>
<td>Occupancy Actual</td>
<td>54 + Daycare</td>
</tr>
<tr>
<td>Temporary Buildings</td>
<td>None</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

---

**DESCRIPTION**

Old two storey house with two storey extension brick built with pitched and flat roofs all of traditional construction and with basement boiler house generally giving sound accommodation. The spread nature of the design provides problems for the staff using the group living system. The manned emergency telephone system centre operates from here and there is sheltered housing adjoining.

---

**CONDITION**

<table>
<thead>
<tr>
<th>Building Structure</th>
<th>Good = A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E = Bad</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal Environment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>External Environment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Electrical Services</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mechanical Services</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Type</td>
<td>Oil Fired</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

---

**ENERGY CONSUMPTION**

<table>
<thead>
<tr>
<th>Performance</th>
<th>AS % OF TOTAL COST</th>
<th>£ UNIT COST</th>
<th>£ COST PER M²</th>
<th>RATES PAID</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy</td>
<td>-</td>
<td>304</td>
<td>8.65</td>
<td></td>
</tr>
<tr>
<td>Premises Related</td>
<td>13.67</td>
<td>582</td>
<td>16.54</td>
<td>Relief Granted</td>
</tr>
</tbody>
</table>

---

**COMMENT**

The utility rooms are not really being used. More bathing facilities and improvements would be appropriate.
33. In order to make use of the basic property record, local authorities need to relate the number of occupants of a building to its capacity. This implies adoption of uniform standards for space allocation. This is a subject of considerable debate as there are no agreed universal sets of criteria. For example, elderly persons’ homes now have such a wide variety of functions (day centre, residential, etc) that the DHSS no longer issues official space standards. Authorities must rely on their own decisions in relation to the level of care they feel appropriate. Libraries have a range of uses other than simple book issue (reference purposes, meetings, exhibitions, etc).

34. For schools there are several ways of calculating capacity; for instance, based on a standard area per pupil (different for primary and secondary) depending on the subject being taught. The range of activities in sports halls and leisure centres means that utilisation measures cannot be compared between, for example, one sport and another. Even for local authority office accommodation different design, age, building characteristics and staff mix mean that the application of simple and consistent space standards is not easy.

35. There are however some national standards for office accommodation (e.g. those developed by LAMSAC, or by the PSA for central government buildings). Appendix B describes some of the principles involved in the calculation of office utilisation and sets out some suggested space standards. SCALA plans further research in this area. At the very least, local authorities must determine their own local standards for each type of property, and use them on a consistent basis. Once adopted any relaxation of the criteria for space allocation (for example, to make it appear that buildings are ‘full’), must be resisted. Low utilisation not only suggests there is a surplus of property but is also likely to lead to higher unit property running costs, as will be discussed in Chapter 2.

SERVICE PROPERTY REVIEW

36. Local authorities have traditionally reviewed their property holdings on a committee by committee, service by service basis. This is often done in response to a need to cut back overall expenditure or to take advantage of opportunities for expansion of services. Typically, the policy committee requires each service committee to review its property holdings in a given cycle and to report any land deemed surplus to the committee's requirements. Guidelines are often given by the policy committee, e.g. that land in advance of requirements for projects not in the three year capital programme must be identified. Many authorities have been very successful in identifying surplus land by this means. Others have yet to start tackling the problem or have failed perhaps because of insufficient incentives. Unless service committees and their supporting departments see a clear gain from surrendering property, they are unlikely to try very hard.

37. There are many examples of successful reviews of property holdings by service departments. Education authorities, for example, are responding to the reducing number of pupils by examining the likely consequences on the education service in general, and on the building stock in particular. Other authorities have carried out reviews of particular groups of buildings which are increasingly unsuitable for their original purpose – the review of elderly persons’ homes built before the 1920s in Essex, shown in Case Study 2, is a good example.

38. Carrying out a review of this nature, even within a single service, can be a very time consuming business. Such a process should not preclude immediate action where the alternatives are limited and the gains are likely to be substantial. For example, as described in Case Study 3, the London Borough of Hillingdon realised the potential for valuable housing land being used as a horticultural nursery. There will be many other examples where
departments are well aware that they can effectively deliver their services without continuing to occupy particular premises. More generally, the abandonment of a scheme by a local authority or its deletion from the forward programme immediately results in any land acquired for it becoming surplus. Similarly, the completion of a highway scheme will often leave some pockets of land which are not needed. Such land can immediately be offered for disposal. In all such cases, it is not necessary to wait for a comprehensive property review before taking action.

AREA PROPERTY REVIEW

39. Some authorities have recognised that reviews confined to a single service may result in opportunities being missed and solutions not being the best available. Instead they
have instituted reviews of all the council’s property holdings in a particular area. In the Commission’s view, this is the better approach. While recognising the importance of single service reviews, it is important that local authorities examine the benefits of comprehensive reviews such as these as soon as possible. There is a danger that many options for a better matching of property to overall service delivery may be pre-empted by single service reviews. Area reviews are in effect an extension of service reviews: service plans are still an essential input.

40. A working party set up by COPROP produced a report* on area property review in September 1985. The working party, consisting of senior property professionals with experience of property reviews in five authorities, argued the case for carrying out a review and set out the steps a review team should follow. Of fundamental importance is agreement on the scope and objectives of the review. Only if these have been defined prior to the exercise, and argued through, if necessary, by both the property professionals and the users of property, will a successful conclusion be reached. There is disturbing evidence of property reviews failing to reach a satisfactory conclusion because the participants could not agree on what they were trying to achieve. Objectives which typically could form the basis of a review are shown in Exhibit 9.

---

Exhibit 9

OBJECTIVES OF A PROPERTY REVIEW

Objectives should be agreed by all those involved

- To improve the quality of service delivery, now and in the future
- To optimise utilisation of property
- To reduce property running costs (or to increase return from expenditure)
- To generate capital receipts
- To maximise return on investment property

41. Exhibit 10, adapted from the COPROP report, sets out a summary of the steps to be followed during the course of a review. Evidence gathered by the study team of reviews carried out in several authorities illustrates that positive benefits can be achieved, but also draws attention to the potential shortcomings of the approach. Case Study 4 describes a success story, the review carried out by Gloucestershire County Council in Fairford. Exhibit 11 summarises the outcome of the review.

42. Similar success stories have been observed in many other areas – for example, in the study of the West side of Worcester, the earlier study of the city of Hereford, and also Penrith, Whitehaven and Workington in Cumbria. Even in areas such as Cumbria, where land values are low, there is much to be gained from a comprehensive area property review. The review of Penrith, for example, resulted in a more rational use of the property available and improved service delivery, in addition to generating useful capital receipts.

43. Other examples of property review examined during the course of the study field work have been less successful or at best are still awaiting implementation. In general in these cases the objectives of the reviews were not adequately defined, the incentives to participants were not made clear and the process was over-elaborate. One very large study which produced a large quantity of data for all properties in a major urban area has still not produced any definite results (although the information itself will be of future use). In a smaller study carried out in another authority there was a lack of commitment from some of the service departments: the review was described as 'a waste of time' by the senior representative of the education department on the review team, on the grounds that the whole process diverted resources from what was felt to be more pressing work. In another county, several months' review work was aborted when the scope and objectives had to be redefined.
Exhibit 10

THE PROCESS OF PROPERTY REVIEW

The process of property review requires contributions from top management, service departments and the review team.
### Case Study 4: AREA PROPERTY REVIEW

**Authority:** Gloucestershire County Council  
**Date:** 1983/5

**Subject:** Review of County Property in Fairford

#### PROBLEM:
Although only a small country town, Fairford has a recognised identity and contains a cross section of most types of both county and district property. Before the review, total county land ownership amounted to nearly 20 hectares consisting of primary, secondary and special schools, police and fire stations, a former magistrate's court and a combined library/youth club/community centre. Many of these buildings were due for replacement: part of the primary school, for example, dated back to 1873 but nearly 90% of the present school buildings comprised “Horsa” units built in 1955, or temporary classrooms. The site itself was too small by current DES standards. The library — in a single room — was considered to be inadequate; conversely, the police station occupied only 20% of an 1860 building which used to house the magistrate’s court until 1975, but which did not meet modern operational requirements. Although these and other deficiencies were well recognised, there were no obvious solutions to the problems in isolation and no schemes in the capital programme. It was felt in 1983 that the only way forward was to carry out a corporate property review.

#### ACTION:
A review team from the Opportunities and Development Group of the County Property Services Department, consisting of both valuation surveyors and architects, carried out detailed work in 1984. Service departments worked in full co-operation with the review team. Part of the work also involved extensive consultation with, among others, the district council and Fairford Town Council and also the local district health authority.

#### OUTCOME:
Final approval to the recommendations was given by service committees and the full council by October 1985, and three new schemes included in the capital programme over the next four years. Implementation of the review recommendations is now well in progress and capital receipts are approaching £2 million.
FAIRFORD PROPERTY REVIEW

Imaginative use of property can meet the need for improved services and yet be self-financing

BEFORE

- Spare land at secondary school
- Primary school replacement site
- Existing primary school
- Existing community centre and library
- Existing police station and disused former magistrates court

AFTER

- Reorganise to accommodate new primary school (to be opened September 1988)
- Sell site for housing (jointly with adjoining private owner)
- Discharge loan debt on historic purchase
- Part to be converted for new library 1988-89
- Part of site to be used for new police station (Home Office funding awaited)
- Remaining surplus land to be sold post September 1988 for sheltered housing and/or hospital extension
- Community centre expands into vacated library accommodation
- Interim tenancies of disused parts (eg, to town council)
- Eventual sale post 1990 of whole building (possibly to town council as museum) when new police station opened

CAPITAL EXPENDITURE

£'000 (estimated)

625
100
210
120

RECEIPTS

£'000 (estimated)

1,320
515

KEY:

- Changes to existing buildings/sites
- Provision of replacement buildings

Source: Gloucestershire CC, Property Services Department
44. Area property review, therefore, has a place in good property management in local authorities but the success of a review is very dependent on several key ingredients as shown in Exhibit 12.

Exhibit 12

ESSENTIAL INGREDIENTS FOR SUCCESSFUL PROPERTY REVIEW

Member commitment is the essential starting point

- Commitment from members
- Adequate data
- An established procedure for the review, properly time-tabled and with built-in implementation and follow up
- A manageable size of review area, without too much detail
- Involvement of services, encouraged by incentives
- Leadership of the review team by an officer of sufficient status
- Review team members with the power to bargain and negotiate
- A clear mechanism for resolving disputes – decisions ultimately taken by the policy committee
- An implementation manager of sufficient status to carry the recommendations through to a conclusion

45. It is important to maintain the momentum of a review and not allow difficulties in the process (particularly over implementation) to be used as an excuse for lack of action or, worse, to abandon the review altogether. Nonetheless, the review process may take considerable time and effort and the benefits may take several years to be realised. For example, a review of all county owned property in the city of Hereford was first proposed not long after reorganisation in 1974 when the previous county of Hereford was merged with Worcestershire. The review work itself was carried out in the late 1970s and the final report was approved by the county property committee in April 1980, and by the county council in May 1980. Since then much detailed work has been required, both to bring identified surplus properties to the market and to prepare the design briefs for conversion and new buildings.

46. Table 3 charts the progress made since approval in 1980 to the present. The table shows the capital receipts each year (net of administrative expenses) and the capital expenditure on new schemes.
### TABLE 3: HEREFORD PROPERTY REVIEW

£000 per year (March 1986 prices)

<table>
<thead>
<tr>
<th>Year</th>
<th>Capital receipts</th>
<th>Capital expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980–81</td>
<td>311</td>
<td>0</td>
</tr>
<tr>
<td>81–82</td>
<td>54</td>
<td>362</td>
</tr>
<tr>
<td>82–83</td>
<td>964</td>
<td>485</td>
</tr>
<tr>
<td>83–84</td>
<td>181</td>
<td>154</td>
</tr>
<tr>
<td>84–85</td>
<td>507</td>
<td>359</td>
</tr>
<tr>
<td>85–86</td>
<td>605</td>
<td>599</td>
</tr>
<tr>
<td>86–87</td>
<td>132</td>
<td>69</td>
</tr>
<tr>
<td>Total</td>
<td>2754</td>
<td>2028</td>
</tr>
</tbody>
</table>

Source: Hereford & Worcester C.C. Property Department

Exhibit 13 shows how the cumulative capital receipts are consistently ahead of cumulative capital expenditure after the first two years. The most recent estimate of the likely eventual total capital receipts from the sale of surplus property is approximately £3.7 million. In addition, substantial and continuing revenue savings of £250,000 a year have been achieved.

Exhibit 13

**HEREFORD PROPERTY REVIEW**

(Cumulative receipts and expenditure, March 1986 prices)

Receipts should lead expenditure to facilitate change

Source: Hereford and Worcester County Council Property Department
controls on capital. Exhibit 14 is an illustrative example of how, over a period of time, the perceived disincentive effect of present controls can be alleviated. The example assumes a constant level of receipts over a ten year period, only 30% of which can be used in the year of receipt. However, when the cascade effect (referred to earlier) is applied, the actual expenditure can, after a period of years, build up almost to the level of the receipt. After about seven years, the equivalent of more than 90% of the current year's receipts is available for expenditure. The calculation is however very sensitive to the percentage of receipts that can be applied in any one year. When the prescribed proportion for non-housing capital receipts was set at 50% (i.e. until the 1985-86 financial year) this level would have been reached in only four years. Were the proportion to be reduced to 20% (the current level for council housing receipts in England) the corresponding period would be 11 years.

48. These figures illustrate the difficulties experienced by local authorities by the progressive reduction in the percentage that can be applied. Planning for capital investment is made much more difficult when the rules keep changing. This is particularly unfair on authorities that have taken a responsible attitude to property rationalisation in the past and are relying on the accumulated receipts to augment future capital allocations. Nevertheless, the illustration serves to emphasise the opportunities arising from a steady flow of capital receipts, which might result from a series of overlapping property reviews. In effect, a steady

Exhibit 14

CUMULATIVE EFFECT OF CAPITAL EXPENDITURE CONTROLS

A steady flow of capital receipts will allow expenditure equivalent to 90% of the annual receipt after seven years

Source: Audit Commission study team
state' is reached. For one-off schemes, however, it can often be difficult to generate the initial receipts required in order to produce the longer term benefits, particularly in small authorities or where land values and hence disposal proceeds are low.

**WIDER USE OF EXISTING SERVICE PROPERTY**

49. Traditionally, local government property is viewed as 'belonging' to the service that uses it. Many local authority officers primarily concerned with service delivery take the view that their service 'owns' the property. Reports to committee will often reflect this. Notice-boards outside some buildings will often refer to the particular service committee rather than to the authority as a whole. This view is typically reflected in the accounting arrangements for property. The accounts of the service committee which uses the property are generally debited with loan charges on the capital costs of acquisition and development and with the revenue expenditure incurred in using the property. If the property is leased to third parties or hired out, the income is credited to the service committee's account also.

50. All this indicates an attitude that property is thought to be dedicated to a single service which has complete control over its use. This may have been appropriate in the past but in view of the rapid pace of change now being experienced by most local authorities, as described earlier, it is no longer defensible. Although the traditional approach may have some advantage in helping to ensure that there is clear managerial responsibility, it can result in an authority failing to recognise worthwhile opportunities for wider use of its property. Even where radical solutions such as school closures are not possible, the high revenue penalty of underuse demands action to make better use of the spare capacity. If the revenue expenditure must be incurred (for example, by the need to keep open an isolated small school) then there is a duty to maximise the overall service return from that expenditure.

51. Many authorities have responded to this challenge by actively exploring the opportunities for extending the use of property. The purposes of such wider use can either be to deliver existing services on fewer sites, thereby reducing property running costs and allowing some property to be declared surplus, or to enable services to be expanded in an economic manner. There are several forms this can take:

- extending the hours of opening of buildings (e.g. use of school recreation facilities at evenings and weekends);
- formal arrangements for two or more services of the authority to be provided from the same building (e.g. public libraries in schools);
- providing services jointly with other authorities (e.g. county and district together) or with outside bodies (e.g. NHS facilities);
- renting out parts of buildings no longer required for service delivery.

52. It is not always easy to overcome the difficulties that arise when traditional uses of property are widened. There may be staff management problems (such as changed working arrangements) or complications in financial agreements between two services or two authorities. Nevertheless the concepts are not new – examples of wider use can be found dating back to before World War II, as in the village colleges to be found in Cambridgeshire. The Dukeries complex at Ollerton in Nottinghamshire – outlined in Case Study 5, is a more recent example. A similar concept has been adopted at South Woodham Ferrers in Essex where the new community school incorporates recreation facilities run by Chelmsford Borough Council outside school hours, a library, and offices for both the police and parish council. An example of a different kind involves the Berkshire County Council Shire Hall at
Reading. Between initial design and final completion of the building, it was realised that there would be a surplus of accommodation over the requirements of the county council. Over 20% of the building is now leased out to private companies, providing revenue of over £750,000 per year to the authority.

53. Nonetheless, the joint use of facilities could be developed much further. The study team found few instances of local ‘patch’ social services offices in schools, for example. An appendix to the DES report, A Study of School Buildings (1977), listed many potential uses for under-occupied schools, and there are many examples in other parts of Europe listed in a
report* produced by the OECD Programme on Educational Buildings. Exhibit 15 is taken from this report.

Exhibit 15

SURPLUS SPACE IN SCHOOLS

There are many possible uses for surplus school capacity

1. OTHER NEEDS OF THE EDUCATION SERVICE
   - Improved space standards
   - Better provision for science and the arts
   - Libraries, resource centres, social areas
   - Teachers’ centres, TV centres

2. COMMUNITY USE FOR EDUCATION, SOCIAL AND CULTURAL NEEDS
   - Adult education
   - Youth clubs and training centres
   - Parents’ groups, neighbourhood associations
   - Workshops, refreshment facilities

3. VOLUNTARY SOCIAL SERVICES ORGANISATIONS
   - Day centres for elderly and handicapped
   - Health clinics

4. RE-USE FOR RESIDENTIAL PURPOSES
   - Single persons’ dwellings
   - Homes for the elderly

5. ADMINISTRATIVE AND COMMERCIAL USE
   - Offices
   - Workshops
   - Surgeries
   - Stores

6. SALE ON THE OPEN MARKET


TENANTED SERVICE PROPERTY

54. Many of the management issues discussed above for direct service property apply equally to tenanted service property (e.g. smallholdings, industrial starter units, property leased to voluntary bodies, etc). This type of property should also be included in any area reviews. In addition, local authorities must ask themselves what the objectives are for holding

tenanted service property, and is the subsidy given to tenanted service property providing better value than alternative uses of that money? Chapter 3 discusses the role of local authority members in relation to the setting and monitoring of the objectives for holding tenanted property. The management issues for this type of property are discussed below.

55. Many authorities let out property not for commercial reasons but because the activity generated by such lettings forms part of the provision of an indirect service. Allotments, smallholdings and council estate shops are part of the provision of a statutory service; factories and industrial sites may initially be part of the provision of the non-statutory or social service for the development of the local economy; accommodation let at low rents to voluntary bodies such as citizens’ advice bureaux or to a local law centre encourages the activities of these bodies.

56. Such leases often involve implicit subsidies (sometimes referred to as 'financial support') of one of the following kinds:

(i) Leases restricted to purposes which limit the value of the holding. A restriction placed on the use of property allowing only, for example, allotments, smallholding or a chemist’s shop prevents uses for other purposes or development which might command higher values. In such cases, the authority and the service committee concerned must be made aware of the subsidy involved and the opportunities which are lost by preventing other uses.

(ii) Leases of property at market rents which do not provide an adequate return on the cost of providing the asset. The provision of advance factories, for example, typically requires the acquisition of land, provision of infrastructure and development of factories, yet the market rent for factory space may not yield an economic return on the capital expenditure incurred. In such cases, the service committee bearing the cost, typically the economic development committee, should always receive in advance a financial forecast of capital costs and the anticipated return. It would be for that committee to decide whether the anticipated deficit should be incurred or the money spent on alternative ways of increasing local employment.

(iii) Leases to voluntary bodies at less than market value or 'peppercorn' rents. Although these practices are common in many local authorities, there is little justification for them. If an authority is in favour of subsidising a voluntary body, the subsidy should be overt and paid for by grant by the committee responsible for the voluntary body’s activities, not by the owning committee which should always seek to obtain a market rent for its property.

57. One way of making explicit the costs of these services could be to charge the service committee a full economic rent so that any element of subsidised rent to the tenants is apparent. The full economic rent should be based upon the opportunity value, or the cost of acquiring and developing the property if greater. This is a system of asset rents (discussed in more detail in Chapter 3 under Incentives) applied to this portfolio, the reasons being that, unlike most direct services, these indirect services are exercised much more at the authority’s discretion, and most of the service cost usually relates to the acquisition and development of property.

SMALLHOLDINGS

58. County authorities are statutory smallholding authorities, i.e. they have power to provide farms and smallholdings under the Agriculture Act 1970. Regulations made under the
1970 Act include a requirement that holdings must be let at open market rents. Other regulations cover the selection of tenants based on experience and the advertisement of holdings, in order that the aim of the legislation – 'the provision of opportunities for suitable persons to be farmers on their own account' – be achieved. Thus, smallholdings were to be seen as a 'ladder' or 'gateway' to help young farmers enter the private sector rather than, as under earlier legislation, aimed primarily at the resettlement of ex-servicemen and unemployed industrial workers.

59. This aim is by and large not being achieved, as a report* produced in 1984 makes clear. In most counties, very few, if any, opportunities have arisen for progression beyond the local authority sector. The report instanced figures from the 1979–80 MAFF Annual Report to Parliament: 'whilst 275 of the 7,565 tenants of English county farms had voluntarily surrendered their holdings only 12 did so to take up farms in private ownership. That is less than 5% of those who left and only 0.16% of all tenants'. The equivalent figures are even lower for Wales. Such a small turnover was mainly caused by the short supply of private farms for rent, due to security of tenure over three generations and changes to capital transfer tax. However, there has been turnover within the public sector through amalgamation of smallholdings. The abolition of tenant's succession rights by the Agricultural Holdings Act 1984, together with the tax changes has reawakened the interest of the private sector in providing farms for rent.

60. Authorities ought to monitor the turnover of their estate and more generally set out their reasons for continuing to provide this service at its present level. One authority, Derbyshire, has already disposed of virtually all its holdings following a review of the options available. This extreme approach will not necessarily be the correct one for other authorities. It may well be argued that since land is a finite resource, retention of smallholdings is in the long term interests of an authority. Nevertheless, although the provision of smallholdings is clearly a statutory function, the level of provision is still at an authority's discretion, and, as such, the Commission believes that all authorities should at least have a clear statement of policies and objectives against which suitable measures of performance can be derived. For example, if the objective is to maintain rural employment then the opportunity cost of each job created should be calculated – the report from INLOGOV includes an example of how this can be done in order to compare it with other ways of achieving the objective.

61. Other performance measures can be derived. An analysis of CIPFA smallholdings statistics by a LAVA working party has derived measures for:

- the average rent per hectare for comparison with the MAFF 'all farms' average rent for the authority;
- the operational surplus (or deficit) per hectare, both gross and net of debt charges;
- the overall net surplus (or deficit) after allowing for administrative and other costs.

62. Where there is a deficit on the smallholdings account (but also even where there is a surplus), local authorities need to be satisfied that the service provided justifies any other opportunities foregone. There may be cheaper ways of providing an equivalent service, or other services may be judged to have a more important call on the investment.

63. Table 4 analyses the financial return being obtained from smallholdings by county

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councils in England and Wales. Rents have increased more quickly than expenditure over the period since 1976–77, with a consequent increase in the net surplus from £4 per hectare in 1976–77 to £61 per hectare in 1986–87.

TABLE 4: SMALLHOLDINGS REVENUE ACCOUNT  
(March 1987 prices)

<table>
<thead>
<tr>
<th></th>
<th>1986–87</th>
<th>1976–77</th>
<th>Per Hectare</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£000</td>
<td>£000</td>
<td>£</td>
</tr>
<tr>
<td>Operational income</td>
<td>21,100</td>
<td>13,200</td>
<td>138</td>
</tr>
<tr>
<td>Operational expenditure</td>
<td>(7,400)</td>
<td>(5,900)</td>
<td>(48)</td>
</tr>
<tr>
<td>Gross operational surplus</td>
<td>13,700</td>
<td>7,300</td>
<td>90</td>
</tr>
<tr>
<td>Interest</td>
<td>800</td>
<td>800</td>
<td></td>
</tr>
<tr>
<td>Debt charges</td>
<td>(800)</td>
<td>(2,800)</td>
<td></td>
</tr>
<tr>
<td>Net operational surplus</td>
<td>13,700</td>
<td>5,300</td>
<td>90</td>
</tr>
<tr>
<td>Non-operational income</td>
<td>1,000</td>
<td>2,500</td>
<td></td>
</tr>
<tr>
<td>Non-operational expenditure</td>
<td>(5,400)</td>
<td>(7,200)</td>
<td></td>
</tr>
<tr>
<td>Net surplus</td>
<td>9,300</td>
<td>600</td>
<td>61</td>
</tr>
</tbody>
</table>

Source: CIPFA Smallholdings statistics, 1986-87 Actuals

Nonetheless, individual county councils vary considerably in their performance. Exhibit 16 shows the variation between authorities in terms of income and operational expenditure.

Exhibit 16

SMALLHOLDINGS: INCOME AND OPERATIONAL EXPENDITURE 1986-87

Both income and operational surplus per hectare vary considerably
VACANT PROPERTY

64. Vacant property can be of several types: land held in advance of service requirements, property acquired because of planning blight, and surplus property (which may include, for example, pockets of land left over from a highway development). All of these require positive management.

65. Land acquired in advance of requirements of a service committee is normally under the control of that committee, which bears the cost of acquisition and receives any rent for temporary lettings. Where this is so, service committees should always receive advice from the council's property manager or estates officer, before acquisition, of the anticipated cost of holding land in advance and the management and maintenance implications of buildings, so that they can compare such expenditure and its benefits with other committee activities. In addition, even though the service committee may well be prepared to continue to bear the true opportunity cost of the land, there should be a periodic review of land held in advance of requirements to ensure that the proposed development is still likely to proceed within a reasonable timescale. There will be occasions when, in the interests of the authority as a whole, the service committee should relinquish its holding, for example, if the land were to be a key element of an area property review solution.

66. Property acquired under blight regulations needs to be the subject of particular attention. Too often such land and buildings stand unused because of uncertainties over the timing of future development schemes. There should be a regular review of these property holdings: if the scheme is still likely to go ahead but not for some time then alternative uses should be found, such as lettings for small workshops or grazing, accommodation for the homeless, advertising hoardings and so on. As soon as a planned scheme has been dropped, the land should be actively marketed.

THE LAND REGISTER

67. Part X of the Local Government Planning and Land Act 1980 empowers the Secretary of State for the Environment to compile and maintain a register of the land of local authorities and other public bodies where 'in the opinion of the Secretary of State the land is not being used or not being sufficiently used for the purposes of the performance of the body's functions or of carrying on their undertaking'. A copy of the register must be kept by each local authority for its area.

68. The Secretary of State may direct a body to take steps for the disposal of land held by it which is on the register, on such terms as may be directed. Before giving a direction, the Secretary of State must give the public body an opportunity to make representations, and he must be satisfied that the land can be disposed of without serious detriment to the performance of the body's functions. The intention behind the register was to make more readily available to any interested developer, information about potential development sites, and to encourage public bodies to release areas of land to the market, to the benefit of the ratepayers directly in increased income and the community at large by the eventual use of the land. The register covers holdings by all tiers of local authorities, the water boards, statutory undertakers and the nationalised industries and certain other public bodies. In general, sites smaller than an acre in size are not entered in the register; however, exceptions are made where the Secretary of State registers a site as the result of a request by a member of the public. For each site, details of area, ownership, current or previous use and planning considerations are required.
69. In evidence submitted to the Commission during this study RICS stated that in the experience of a number of authorities the register is 'little-used, not updated and provides an inadequate base of information'. This confirms the views of several authorities visited by the Commission study team. In many local authorities the register is regarded as irrelevant to their property management responsibilities. It was felt that the legitimate long-term planning of their land needs is not taken into account before the Secretary of State puts land on the register. The direction procedure is adversarial between the Secretary of State and the local authority concerned and has led to litigation. Directions that land be disposed of within six months and, as a last resort, put up for auction with no reserve are not always appropriate for securing the best price.

70. From the point of view of the private developer, many of the entries relate to land that has little or no development potential. A recent report* from the House Builders Federation, for example, claims that only 11% of all land in the registers is available and suitable for housing development. A report** from the Institute of Economic Affairs (quoting DOE figures) states that only just over 40% of registered land area is judged to be of 'high' potential for any sort of development. Interest from developers has so far been minimal. In one authority visited by the study team total holdings currently on the register consisted of 81 hectares in 13 pieces of land, all of which had been on the register since it was set up in February 1982. Of these, several had severe drainage or access problems and one consisted of several miles of disused railway. Other entries related to designated 'Green Belt' land. In another authority the register had been inspected locally only five times since it was set up, all but one of these by students carrying out local research projects.

71. Only in the larger counties does the register contain more than a few hundred hectares of land. Nationally, figures provided by the DOE show that in England total holdings of local authority owned land on the register stood at 23,000 hectares in September 1987. As much as two thirds of all land registered before the end of 1983 (which itself forms 85% of all land ever registered) is still on the register. Only just over 16% (6,100 hectares) of registered land has been disposed of and a further 22% (8,300 hectares) brought back into use or removed from the register. As Exhibit 17 shows, there are significant regional variations – only in Greater London and the South East region have more than 25% of the register holdings been disposed of and the figure falls to below 10% in the Northern region. Up to September 1987 the Secretary of State has issued just over 300 notices of direction (affecting under 500 ha) under Section 99 and only 62 formal directions. No directions have been issued to public bodies other than local authorities.

72. The existence of a register could act as a stimulus to local authorities to release surplus land, but the lack of interest shown by developers and the opposition of many local authorities to the present land register system suggests that it serves little useful purpose in its current form. Either the system should be strengthened to ensure that it includes all land that is clearly surplus or it should be discontinued and replaced by better central government incentives for the release of land by local authorities (e.g. relaxation of capital controls in certain limited cases perhaps), coupled with systems more relevant to good overall property management in local authorities. These should include procedures to ensure that property surplus to any service requirements should be notified to a central controlling committee of the council, with periodic reports on progress of disposals. These reports would be public

THE LAND REGISTER

Position as at September 1987, by region

Sales of registered land represent only a small fraction of the total registered

Source: Department of the Environment

knowledge, so the original intentions of the Act would be adequately fulfilled (and indeed failure to dispose of surplus property may become much more widely known via local press reporting of committee business).

73. The recent *Local Government Bill* contains proposals intended to make the land register system more effective. The Secretary of State's powers would be clarified, the quality of information improved and the procedures for directing disposals streamlined. Owners of land would be required to keep the information on land registers up to date. As a result of these changes, local authorities will be impelled to pay more attention to the register than up to now. The bill is expected to receive Royal Assent in the spring of 1988.

PROPERTY HELD FOR INVESTMENT

74. Many local authorities own substantial portfolios of commercial property, mostly as an investment. This is particularly true of the larger towns and cities where much of this type of property has been owned for many years (for example, if acquired under Section 120 of the *Local Government Act 1972* for the 'benefit, improvement or development' of an area). Ownership of this type of property is at an authority's discretion and the authority should
therefore satisfy itself that continued ownership is in the best interests of the community. In particular, there is a need to consider critically what other opportunities are lost by tying up resources in commercial property – improved service delivery, investment in revenue saving projects such as energy conservation, a higher standard of maintenance, lower rates and charges, etc. The study team has found little evidence of authorities carrying out this sort of analysis of the opportunity costs and benefits. Indeed, few authorities have a declared policy on ownership or have even recently valued their investment portfolio. It is thus not possible for them either to know whether the objectives of continued ownership are being fulfilled or to measure the return from the property for comparison with other opportunities. It is important that local authorities are in a position to make explicit the often hidden costs of policies adopted for social reasons or to provide planning benefits.

75. The overriding principle must be that *if a local authority wishes to retain what is in effect an investment portfolio it should be managed in a way similar to any other property owning company*. In the private sector, property companies will, almost without exception, be aware of the current value of their portfolios. Local authorities should be in a similar position, at least for the significant properties in their portfolio – in one large shire district, for example, only 5% of the total number of properties accounted for over half (£750,000) of the total annual rent income. Valuing these alone would not require a major effort. Of the remaining 95% many were of minor significance, such as electricity sub-stations, wayleaves, etc. It is not necessary to include all of these in a valuation exercise. The larger authorities will have their own specialist valuation staff to carry out this work, which need not be particularly time-consuming – estimates from several sources suggest that even in the larger cities a complete rolling annual valuation should take no more than one full-time valuer. The cost of this input is likely to be very small in relation to the value of the portfolio and the potential benefits of active management.

76. Smaller authorities, with no in-house valuation expertise, should seek advice on value from the private sector or from the district valuer. Currently no charges are made for the district valuation service to local authorities. The Chief Valuer's Office has indicated that, provided sufficient setting up time were allowed, resources could be made available for DVs to provide valuation advice not only for authorities to which a full service is already given, but also to those authorities with their own estates departments. Provided the task was recurrent, so that longer term complementing arrangements could be made, annual valuations could be provided allowing comparability at a specified date. On any other basis it might be necessary to institute a rolling programme or a cycle with a longer valuation interval.

77. The financial return from commercial property is a combination of the revenue income and growth in the capital value. The balance between the two will vary for different types of property and for different individual properties. *Authorities should, in the same way that property companies would, have clear objectives for owning investment property and for managing properties in an active way* – identifying and disposing of poor performers, investing to improve performance where justified, adding to the portfolio where this would enhance the value of existing property (‘marriage value’), refurbishing property prior to rent reviews and so on. Even where authorities may be tied in to long term leases, active management is still important. It may be beneficial to reach agreement with the lessee to restructure the lease to mutual advantage: one authority visited gained a substantial increase in rent in exchange for greater security for the tenant. There are also opportunities for sale of property with a sitting tenant. Industrial estates, for example, once established and profitable, could
be sold and the proceeds used to finance further industrial units, which could bring greater
benefits in the long term than retaining ownership of the original units.

* * *

78. This chapter has recommended that local authorities take the following actions:

- Identify what property is owned by the authority.
- Review whether it is needed for service delivery.
- Compare the costs and benefits of the social portfolio with the alternative benefits that
could be obtained from the subsidies or financial support provided.
- Compare the financial returns from the investment portfolio with the opportunity
costs.
- Engage in active management of the investment portfolio.

As well as reviewing property in this way authorities need to examine their control of
the property running costs, particularly those of the direct service portfolio. This is the
subject of the next chapter.
2. How Much Should Property Cost To Use?

79. The previous chapter discussed the need to match the supply of property to that required for the delivery of services (either direct or indirect), and the opportunity cost of providing that property. Such costs represent only one aspect of the total cost of property. Also of importance (although the relative magnitude of the cost items may vary from authority to authority) are the property running costs. Buildings require heating, lighting and cleaning. As well as structural repairs and maintenance, there is a need for internal decoration and minor works. There may be grounds needing attention – grass cutting, gardening and hedge trimming. There are straightforward financial considerations – the cost of insurance, rates and water rates.

WHERE THE MONEY GOES

80. Apart from the capital costs of property (debt charges) and the cost of the administrative overhead, property running costs consist of several items:

– building maintenance;
– energy (heating, lighting, power);
– cleaning and caretaking (wages and materials);
– rates and rents (including water rates and charges);
– grounds maintenance;
– insurance;
– fixtures and fittings.

The first four headings above make up the bulk of expenditure, the others account for only 5% of the total on average. Looking at overall expenditure on the four main cost headings, Exhibit 18 shows the breakdown for a sample of authorities. Although there are variations in the nature of the property stock in these authorities there is a general uniformity in the proportions for each cost heading.

81. For a given authority, however, the proportions for individual buildings may differ widely. They will clearly be affected by the building characteristics (age, design, state of repair, location etc.). They are also related to each other: low expenditure on maintenance, for example, will be reflected in a higher proportion for the other items. More importantly, however, low expenditure on maintenance now may result in greater expenditure on energy and cleaning in future years. Authorities should produce detailed cost information for each building in order to investigate the variations.

82. These property running costs (sometimes referred to as ‘premises related costs’ or ‘costs in use’) form a significant proportion of the total cost of providing the service for which the property is held. This proportion (and the absolute costs) will vary according to the service which a building provides and the characteristics of the building itself – age, type of construction and materials, design, etc. Excluding the capital cost of a property, analysis of a range of buildings over a large number of authorities shows that as much as 25% of the total cost of providing a service in, for example, a school or elderly persons’ home may consist of
PROPERTY RUNNING COSTS

Four categories of expenditure account for nearly 95% of property running costs

Source: Audit Commission study team analysis of data from a sample of authorities

property running costs. Table 5 illustrates this proportion for a sample of properties examined by the study team in six authorities. The sample, chosen to be representative of the total local authority stock of buildings, shows that, on average, property running costs account for 17% of the total. In value terms this could be equivalent to perhaps £35 million for the education service in a large county.

TABLE 5: PROPERTY RUNNING COSTS
(as % of the total cost of providing the service)

<table>
<thead>
<tr>
<th></th>
<th>Secondary schools</th>
<th>Primary schools</th>
<th>Elderly persons' homes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upper quartile</td>
<td>18%</td>
<td>20</td>
<td>21</td>
</tr>
<tr>
<td>Median</td>
<td>15</td>
<td>18</td>
<td>16</td>
</tr>
<tr>
<td>Lower quartile</td>
<td>12</td>
<td>14</td>
<td>11</td>
</tr>
<tr>
<td>Number of properties in sample</td>
<td>52</td>
<td>128</td>
<td>89</td>
</tr>
</tbody>
</table>

Source: Audit Commission study team

83. In the interests of providing the best possible service with the finite resources available it is important that expenditure should be kept to the minimum needed to provide adequate facilities and to secure the property's long term future. Money wasted on heating, cleaning, rates and so on is money which, subject to local political decisions about priorities
in the allocation of resources, could be better spent on maintenance, teachers, books or other facilities. Chapter 1 dealt with the need to match the overall amount of property to the present and foreseeable service needs – a school only half occupied still requires almost the same expenditure as if it were full. But even if the supply of property is exactly appropriate to the service need, it is still important to ensure that no more than necessary is being spent on running costs – there may still be opportunities to reduce energy consumption, for example. Once again, any reduction in expenditure is potentially available for directly improving the level of service an authority is able to provide, or for reducing the rates.

There is a direct relationship in most cases between occupancy and running costs per occupant as illustrated by Exhibit 19. In these examples, for a large number of secondary schools in several authorities, expenditure per pupil on energy and cleaning falls by half as occupancy increases from 50% to 100%. But, for a given occupancy there is a wide variation in unit costs, by as much as ±50%. Thus even where it may not be possible in the short term to increase occupancy (by removing or reusing spare capacity or closing schools), authorities should critically examine the running costs of individual buildings to determine other reasons for variations in cost.

This chapter examines these issues in detail. Considered in turn are:
– the need for those responsible for controlling costs (including both service department managers and the immediate building occupiers) to obtain the essential information about how much it is costing them to occupy a property, as a prerequisite to controlling the expenditure;
– the importance of preserving the property asset by timely and appropriate expenditure on repairs and maintenance;
– the opportunities for savings in unnecessary costs, looking at each expenditure heading in turn.

THE NEED FOR COST INFORMATION

The first essential for controlling property running costs is for information about the actual expenditure for each property, for each cost heading, to be made available to the manager responsible for that expenditure. In many authorities this does not happen. During the course of the study, data on property running costs was obtained from a sample of authorities by local district audit staff. The results of this survey reveal that only about half of the authorities allocate the four major cost headings to individual properties. Even where this was done it did not generally apply to all types of buildings – leisure centres, for example, were quite often not treated as individual cost centres. The consequences are threefold. Those responsible for controlling costs do not know how effective they are, and therefore will not be able to improve performance. Furthermore, it is not possible to identify individual properties where costs are unnecessarily high – an essential input to a property review where there may be a range of options for rationalisation. Even where individual properties are treated as cost centres, if there is no breakdown of expenditure to the cost headings the information is of limited use – a low cost building may have inadequate spending on maintenance, for example.

These deficiencies in the information available are surprising given that in most authorities the financial information system (FIS) is already capable of treating each property as a cost centre. It would be relatively simple to identify each property with a cost code and to ensure that items of expenditure are coded appropriately. Although the information needs of the finance department and those concerned with property
Exhibit 19

EFFECT OF OCCUPANCY ON UNIT COSTS
(1985-86)

Unit costs fall as occupancy rises, but, for a given level of occupancy, costs still vary substantially.

**ENERGY EXPENDITURE – SECONDARY SCHOOLS**

[Diagram showing energy expenditure per pupil vs. occupancy percentage with a trend line and scatter plot.]

**CLEANING EXPENDITURE – SECONDARY SCHOOLS**

[Diagram showing cleaning expenditure per pupil vs. occupancy percentage with a trend line and scatter plot.]

Source: Audit Commission study team analysis of data from a sample of authorities
management may be different, e.g. the treasurer requires information about a cost centre such as a school (which may be on a split site) rather than about the individual buildings of that school, it should be possible to reach agreement on a coding structure which satisfies both.

88. It is important also that there is common agreement as to which cost items are included and how they are defined. A working party consisting of representatives from SCALA, SCT, SCQS, COPROP and the DES has recently produced a report on property running costs. The terms of reference of the working party were:

(a) To agree a list of cost headings to make up a core cost representing the annual costs of occupancy of premises.
(b) To provide a definition of the cost headings.
(c) To provide guidance on the compilation of the core costs and on their application to the property management function.

89. The report classifies expenditure either as 'core costs' or 'supplementary costs'. Each category is broken down into the separate component headings with precise definitions of each. The recommended core costs are as shown in Exhibit 20. The Commission supports these initiatives as a positive step towards improved management information on a uniform basis enabling comparisons to be made between buildings within one authority and with other authorities. Appendix C summarises the report's findings.

Exhibit 20

RECOMMENDED CORE COSTS

There are six core elements of property running costs

- General rates
- Water and sewerage charges
- Energy (for heating, cooling, air conditioning, light and power)
- Caretaking, security and cleaning (including equipment, supplies and contract cleaning)
- Building maintenance (including planned maintenance, health and safety work, building services)
- External works maintenance (grounds, fencing, paths, etc)

Recommendations of a joint working party of SCALA, SCT, SCQS, COPROP and the DES
90. Provision of the basic cost information by itself is not sufficient. In order for the information to be used most effectively it must be available on a regular basis, often enough for the cost controller to react if action needs to be taken: once a year data by way of the final expenditure tabulation, several months after the end of the financial year, may be useful in budget setting in the following year but can in no way assist the budget holder to monitor his current expenditure. In addition this information must be available to the building occupier, as well as the finance department or the director of property, and the person responsible in, for example, the buildings and sites section of the education department. Finally, the costs must be related to other information on, for example, building use, size, capacity, number of occupants and other characteristics. Many financial information systems (e.g. LAFIS) allow the inclusion of such simple items as numbers of pupils, floor area, site area, number of places. Simple performance indicators can then be constructed analysing, say, cleaning costs per square metre.

91. It is also necessary to develop a culture whereby building managers take on real responsibility for the resources under their control. It is common for building occupiers to regard the delivery of the service as their sole responsibility and consequently to consider property running costs as a problem for 'someone else'. It is often argued that costs are outside their control because, for example, energy consumption depends on the design of the building, whether it is properly insulated, or whether the heating engineer keeps boilers and controls in working order. Again, cleaning hours are determined by the management services department or negotiated by the personnel department in accordance with a provincial agreement. Even the maintenance budget is fixed by the treasurer's department and the building surveyors.

92. Attitudes such as this conflict with good management of property running costs. Control of all costs should be regarded as important and at least to some extent the responsibility of the building occupier. It is not easy to change a culture: it may require a system of incentives and an acceptance that those responsible for building services are providing support to the building occupier rather than acting as independent agents.

93. An assessment of whether a particular property is 'expensive' or 'cheap' to run can only be made by looking at unit costs. The choice of units must be appropriate to the building use and must enable valid comparisons to be made. It is only when the costs are shown in relation to the size of a school or individual building that it is possible to identify the building that might merit more detailed investigation. Further, unit costs are needed for each of the cost headings. (An energy-efficient building may still be over spending on cleaning). For most types of building there are three main 'units' which are relevant: the area (gross or net floor area); the capacity (e.g. number of school places, or bed spaces in an elderly persons' home); and the current number of occupants (e.g. number on school roll, number of elderly people in residence).

94. Other supplementary measures can also be used, such as hours of use, especially for establishments with high casual use (such as sports centres) or where the use varies day to day (evening classes in schools). Units appropriate for specialist facilities could be derived, e.g. the number of book issues for libraries, or the number of match playing hours for recreation grounds. Local authorities should use these measures in a consistent way for all their properties of each type, and for comparison with other authorities.

95. The remainder of this chapter discusses in more detail the opportunities that exist to provide greater value for the money spent on property running costs. There are two aspects to this:
– spending money more wisely (particularly on repairs and maintenance) in order to safeguard the property asset;
– eliminating waste (e.g. inefficient use of energy) enabling resources to be saved or redirected towards enhancing service delivery.

96. Preserving the asset (i.e. by money spent on repairs and maintenance) is discussed first – this is one area where there may be strong arguments for increased spending. This is followed by a brief discussion of some of the opportunities for achieving better value for money from expenditure on energy, rates, cleaning and some of the minor (although still significant) items.

PRESERVING THE ASSET

97. ‘Repairs and maintenance’ can be classified in several ways. There is work of a structural nature required for the long term preservation of an authority's property assets – often called ‘strategic’ repairs and maintenance. This includes planned maintenance (external painting, repointing, etc), programmed maintenance (such as boiler servicing), major structural repairs when required (re-roofing) and replacement of engineering services when they reach the end of their life. These items are sometimes all referred to as ‘planned’ maintenance, since the need can usually be forecast and budget priorities allocated. ‘Tactical’ repairs and maintenance relate to day to day repairs of a minor nature in response to immediate need, such as window breakage. Tactical maintenance is not synonymous with ‘responsive maintenance’, however – some immediate responsive items may be very much of a strategic nature, e.g. a roof collapse. Tactical maintenance can also include minor works for the benefit of the building occupier and other work which is not essential to the building’s integrity, such as internal decoration.

98. In many authorities visited by the study team the property professionals placed much emphasis on the inadequacy of spending on repairs and maintenance, particularly for strategic work. The overall condition of the authorities’ buildings had declined over several years. They are likely to get worse if remedial action is not taken. Two authorities, Cumbria and Essex, estimate that the total backlog of property repairs and maintenance amounts to £48 million and £70 million respectively. These figures, which were produced by carrying out comprehensive property condition surveys, represent a backlog of 10 and 4 years respectively at current (1986–87) total repairs and maintenance spending levels, even if all resources were to be directed towards overcoming the backlog. Since in Essex about a third of the budget is for day to day repairs, the backlog represents over six years’ worth of the programmed maintenance budget.

99. Condition surveys as carried out in Cumbria and Essex are essential for a proper assessment of maintenance needs. Many authorities have in the past produced estimates of required maintenance expenditure by taking a notional percentage of estimated property value. The percentage figure commonly applied (1.8%) dates back to a report* produced in 1972. This figure was derived from estimated expenditure in 1969 on repair, maintenance and improvement work (including an estimate of the value of ‘free’ labour by home owners to their own property) and the estimated gross replacement value of the entire national building stock. As such, it is perhaps subject to a margin of error of as much as ±50%. Such a benchmark is of little practical use and the RICS itself does not now support this approach. Each authority will have a different requirement based on the age, type and construction of

* Report of Committee on Building Maintenance, HMSO, 1972
its property portfolio, the adequacy of past maintenance programmes and the maintenance standards adopted.

100. For the past ten years SCALA has carried out an annual survey of local authority maintenance expenditure. Based on returns from contributing authorities, the actual expenditure on repairs and maintenance was estimated to be about £5.50 per m² in the 1986 survey. For a secondary school this is equivalent to approximately £35 per pupil (using the standard DES figure of 6.5m² per pupil). The average maintenance backlog was quoted at about £6.50 per m² for all properties, although fewer authorities were able to provide reliable information and this may therefore be a considerable underestimate. There is the likelihood of continuing deterioration – authorities may not even be holding their own in terms of preserving the national property asset. The effect of continuing underspending on strategic maintenance is not easy to quantify because the results may not be apparent for many years. There needs to be further work in this area by such bodies as the RIBA or the Building Research Establishment. Apart from sources such as the SCALA survey there is little quantified national evidence of the scale of the problem, either overall or for individual services. The Office of Arts and Libraries, for example, although prepared to comment on the general state of property as it affects service delivery in individual authorities, does not maintain any general statistics on the maintenance state of public libraries. Similarly, reports by Her Majesty’s Inspectorate of Schools (HMI) will comment on the adverse effect of a school’s poor state of maintenance on children’s education but cannot quantify the required remedial expenditure.

101. A useful comparison can be drawn between local authority schools and independent schools via the annual survey* of the running costs of independent schools carried out by the chartered accountants, MacIntyre Hudson. In the year to the end of August 1986, the sample survey showed that senior day schools (the nearest equivalent to local authority secondary schools) spent £97 per pupil on repairs to property – over two and a half times the SCALA figure. A similar figure has been given by the Manchester Grammar School (not included in the sample survey) which has budgeted to spend nearly £100 per pupil (£10 per m²) on repairs and maintenance in the current school year. Even at this level some desirable but not essential work will be deferred to later years. Though there may be some diseconomy of scale for individual institution-based property management compared with a local authority, these comparisons suggest that the state of repair of many local authority schools may well be below the level required to preserve the asset in the longer term. Recent figures from the DES, based on a sample survey of schools taken in 1986, confirm this. The report **estimates a backlog of main structural requirements relating to the Education (School Premises) Regulations 1981 of up to £490 million for English primary schools and £370 million for secondary.

102. Many authorities blame the problems on the central government controls on the total finance available. The Commission believes that, despite these constraints, authorities can themselves improve the situation by ensuring that maintenance money is not spent on buildings that are no longer required. Adoption of systematic property review procedures is an essential part of maintenance management – closing and disposing of three out of ten schools, for example, could mean that the maintenance budget available for each of the remaining seven would in effect rise by more than 40%. In addition, the capital receipt from

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* *Survey of School Buildings, DES, November 1987.
disposal would not be subject to control if used for capital repairs and maintenance.

103. A maintenance plan needs to be prepared, based on a rational assessment of priorities together with up to date knowledge of the condition of the property. This will help to ensure that difficult long term decisions are not outweighed by short term considerations: money spent today, either in maintenance of existing property or in design and construction of new buildings, is an investment in the future. Once a plan has been agreed, authorities need to ensure that value for money is maximised by proper control of maintenance, whether the work is carried out by an internal DLO or by external contractors. Ensuring that the supply of property is appropriate to the requirements, was discussed in Chapter 1 under property review. The other issues are covered in the next three sections.

MAINTENANCE PLAN

104. Many authorities do not have an accurate picture of the conditions of their building stock. The SCALA maintenance expenditure return for 1986, referred to above, was completed by only two thirds of county councils, just above a quarter of metropolitan and London authorities, and fewer than 10% of shire districts. Even allowing that completion of questionnaires such as this is often regarded as a chore, it is likely that the prime reason for a low response is the lack of data at individual authorities. Even some of the authorities that did reply could not provide the relatively basic level of detail requested. The Commission's report* on housing maintenance stressed the need for authorities to assess the current state of the housing stock. This is equally true for all local authority property and is a prerequisite to making a realistic assessment of future maintenance needs and drawing up rolling five year plans directed towards bringing the stock up to an acceptable standard.

105. It is not always easy to differentiate between repairs and maintenance work and what may be improvements or refurbishments carried out at the same time. However, all authorities should aim to carry out a systematic review of maintenance requirements on a periodic basis. This would provide data for a rational allocation of available maintenance resources in order to meet the declared priorities of the authority. For example, Cumbria County Council is now carrying out its second quinquennial survey of all the properties owned by the council. The first survey, the results of which were presented to the property and estates sub-committee in early 1986, was based on a methodology evolved by Cumbria and set out in a report** produced by the Architects and Building Group of the DES. Buildings were classified into six 'sets':

A1: traditional, pre-World War I
A2: traditional, inter-war
A3: traditional, 1945–1964
A4: traditional, 1965 onwards
B: 'international style', mostly post-war
C: system-built, factory produced components in a light steel frame

106. Each set was seen to have its own maintenance profile and specific problems arising out of construction method or age. The survey looked at eleven basic elements (roofs, floors, external walls, etc) broken down into individual features such as structure, drainage, and insulation. The condition of each feature of each element was assessed on a scale of 1 to 6 from 'dangerous' to 'excellent'. Analysis of the worst three grades and an assessment of the cost of remedial work produced the figure for maintenance backlog of £48 million.

107. Having carried out this first survey, Cumbria recognised that the methodology could be improved, although at the time the survey was extremely valuable in building up knowledge about the age and construction method of the stock. The translation of the condition assessment into the cost of required work was based on a number of assumptions, and the credibility of the end result was questioned (despite the fact that it was in line with other estimates produced independently). It was also felt that six condition grades, however well defined and exemplified, made the assessment unduly complicated. The new survey will replace the six grades by four only: work on buildings in dangerous condition, or to satisfy 'health and safety' requirements; work which should be done within 12 months, and which should form the basis of next year's budget and programme; work which is expected to be required within five years (part of the input to the long term plan); and finally buildings on which no work is likely to be required for at least five years.

108. Other authorities have carried out similar condition surveys and are as a result in a much better position to recognise previous arrears of maintenance work and to allocate available resources. It is easier to justify increased resources for maintenance if the case is based on sound knowledge of the requirements. Information of this nature is also essential for sensible property review.

FUTURE MAINTENANCE NEED

109. Condition surveys such as those carried out in Cumbria serve to confirm property professionals' belief that the current maintenance problems of much local authority building stock arise from two sources: the rapid expansion of services and hence building in the first 30 years after the war, and the diversion of resources from long-term maintenance towards what were perceived at the time to be more pressing short-term service priorities. Both of these have produced a legacy that the current and future generations of officers and members will have to tackle.

110. The period 1945 to the early 1970s saw a major expansion of local authority services, in response both to increasing affluence and to growth in the client groups. Exhibit 21, taken from the DES report* and other later information from the DES, shows a steady increase in school building work from below £200 million in 1946–47, peaking to nearly £1.2 billion in 1972–73, followed by a dramatic decline over the next five years to the levels of the late 1940s (all figures at March 1985 prices). These expenditure levels are reflected in the number of school places completed over the same period, as shown in Table 6.

TABLE 6: SCHOOL PLACES COMPLETED 1946 TO 1987
(Thousands – primary and secondary)

<table>
<thead>
<tr>
<th>Period</th>
<th>Places completed</th>
</tr>
</thead>
<tbody>
<tr>
<td>1946–50</td>
<td>330</td>
</tr>
<tr>
<td>1951–55</td>
<td>1,090</td>
</tr>
<tr>
<td>1956–60</td>
<td>1,260</td>
</tr>
<tr>
<td>1961–65</td>
<td>1,170</td>
</tr>
<tr>
<td>1966–70</td>
<td>1,690</td>
</tr>
<tr>
<td>1971–75</td>
<td>1,930</td>
</tr>
<tr>
<td>1976–80</td>
<td>540</td>
</tr>
<tr>
<td>1981–85</td>
<td>380</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>8,390</strong></td>
</tr>
</tbody>
</table>

Source: Department of Education and Science

School building work rose sharply to a peak in the early 1970s.

Thus, over a 30 year period, more than eight million places were added to the school stock (only partly offset by removal of unfit places), nearly half of these in the late 1960s and early 1970s.

111. A similar picture is seen in the provision of social services facilities. Following the National Assistance Act 1948 there was a rapid building programme of 'Part III' residential accommodation for the elderly in particular. Again, the Mental Health Act 1959 led to the provision of a large number of training centres and homes for mentally handicapped people over a relatively short time.

112. This rapid building programme has resulted in two current problems: untested design and construction methods, used at the time to make the money go further, have not proved adequate; and many components, particularly items such as boilers and wiring, are approaching their 20 to 30 year design life and now need replacement. A parallel can be drawn with the current state of much of the local authority housing stock.

113. Some architects say that it was known at the time that buildings put up in the 1960s would only have a limited lifetime. The prevailing wisdom was that in 20 or 30 years time, with continuing prosperity, resources would be available to replace those buildings. Equally, despite thorough research by, for example, the DES Architects and Buildings Branch and the Building Research Establishment, the new system-built construction methods were still an unknown quantity. Some materials and methods have not lasted as long as some more traditionally constructed buildings. The result is that local authorities are now faced with painful decisions about remedial work.
114. Even without these problems the simple passage of time means that the peak of construction over the 1960s and early 1970s will produce a corresponding peak in the demand for maintenance and replacement work during the next two decades. The study team has developed a computer model to produce a crude estimate of the expenditure likely to be required as a result of the ageing of the stock of school buildings. The model (described more fully in Appendix D) looks at the lifetimes and likely replacement costs of 11 major buildings elements such as boilers, wiring, roofs, etc. These elements account for over 50% of the total planned maintenance expenditure.

115. Taking account of different building types and dates of construction of primary and secondary schools in England and Wales, the model predicts a steeply rising maintenance need from the mid 1990s which does not peak until near the end of the first decade of the next century, as Exhibit 22 shows. This level of expenditure is in addition to any identified backlog—i.e. it is assumed that the stock is currently in good condition. Resources have to be found for both remedial and replacement work so the assets of local authorities are maintained for the benefit of future generations. Authorities are faced with difficult
decisions about how to find the resources for this work. With this maintenance 'time-bomb'
ticking away and without a major funding increase from central government, authorities
may find that there is no alternative except to rationalise their property holdings and dispose
of the identified surplus.

116. Equally, the lessons must be learned for future new building. One of the ways to
ensure that maintenance requirements are considered, and that implications of different
design decisions are evaluated, is to carry out a life cycle cost analysis at the outset of a
development project. Techniques for this have been available for several years (see, for
example, the reports* by RICS, SCQS and the College of Estate Management). There has
been little evidence of their use in the local authority sector, although the largest private
firms are now making it a standard requirement of any development brief. The principal
advantage is that it compels consideration, in a quantitative manner, of all the factors
influencing building costs over the life of the building, rather than concentrating on the
cheapest options in current capital terms (a way of thinking encouraged among local
authorities by the government’s systems for controlling capital expenditure). Consideration
needs to be given not only to future maintenance costs and lifetimes of a building in its
current use, but also the flexibility of the design to reduce the cost of later adaptation and
remodelling as service needs change.

117. The technique must be applied with care. Critics of the method complain that
there is such a paucity of data on building element lives that the results of the exercise are
little more than speculation, and that it can take no account of future advances in
maintenance technology or cleaning methods, or changes in the financial regimes, e.g.
national and local taxes, and inflation. The results are also sensitive to the choice of the
discount rates. Even accepting these problems, life cycle costing is a very important way of
ensuring long-term value for money; more data is becoming available on lives, and one of the
strengths of the technique is that estimates can easily be adjusted to test the sensitivity of
results to different assumptions. Use of these techniques would be enhanced by greater
exchange of information and feedback to building designers relating to particular problems
and lifetimes of components. This would lead to improvements in building design and
suitability for purpose. This is an important role perhaps for the SCALA Technical
Committee and the DES Architects and Building Branch.

CONTROL OF MAINTENANCE EXPENDITURE

118. There will always be a danger that when resources are scarce, long term
investment will be sacrificed in favour of more pressing short term demands. There is a
similar analogy in industrial investment when product development and research are the
first to be cut back in hard times, but the likelihood of this in local authorities is perhaps even
greater given the essentially short term horizon of the electoral process. These pressures must
be resisted. In one authority visited by the study team, control of the maintenance budget
had recently been transferred from service departments to the central property department.
Members felt that this was the only way, in the short term at least, of ensuring that the
physical state of the buildings was adequately protected. In the past, money originally
intended for building maintenance had been spent on other items.

Life Cycle Costs for Architects, University of Reading College of Estate Management.
Other authorities have adopted a different solution to the problem – allowing service departments to retain control of expenditure against the budget but laying down strict rules on the powers of service committees to vire money between budget heads. More often than not, however, the setting of both the planned and response maintenance budgets and control of expenditure is exercised by central property/architects/technical services departments, rather than the service departments. There will of course be liaison between the two, to determine priorities, for example. Investigation by local auditors at a representative sample of authorities (six counties, two London boroughs, eight metropolitan districts and ten shire districts) reveals an approximately 3:1 split between central control and service control. It does not appear to be a function of type or size of authority. This division of responsibility suggests that the majority of authorities have recognised the importance of some degree of central control over budget setting and expenditure. Those authorities without this control will need to satisfy themselves that their own arrangement is more beneficial in the longer term.

Most of the above discussion applies primarily to strategic maintenance, i.e. that which is essential to safeguard the fabric of the buildings to preserve the asset for future generations. On the other hand, there are strong arguments for expenditure on tactical maintenance (internal decorations, minor repairs, fixtures and fittings, and general environmental improvements) to be controlled directly by the building user. Expenditure of this nature is no less important – vandalism is said to be lower when schools are kept clean and painted, for example – but the building users should be allowed more discretion in setting their own priorities, within reasonable limits. Provided that there is no long term danger to the building fabric, it should, for example, be the responsibility of a head teacher to balance the conflicting demands for money for internal painting or for books and equipment. There is nonetheless still a need for technical advice and guidance from appropriate professional sources, and repair responsibilities must be clearly defined so that work is not overlooked.

As a corollary of this, the responsibility to achieve value for money from this type of expenditure must also rest with the building user or manager. Delegation of management responsibility and corresponding incentives are discussed further in Chapter 3, but it is clearly in the building users’ interest to control spending when the benefit can be immediately seen in improved services. If authorities do adopt a system where the responsibility for different aspects of maintenance is split between departments, it becomes even more important that the work be co-ordinated. Examples of poor co-ordination are not uncommon – in one authority a complete electrical rewire took place only weeks after a school had been redecorated internally. It is equally important that maintenance plans take account of the property review process – money spent on a school to be closed may be completely wasted.

One of the principal themes of the Commission’s report on housing maintenance was the need to manage the maintenance effort to maximise value for money. This is just as important for all other local authority property. Attention needs to be given to matters such as the balance of planned and responsive maintenance, the need to control outputs as well as inputs, proper pre- and post-inspection, and control over materials costs.

Effective control and competition require a schedule of rates for responsive maintenance since dayworks charges give no indication of productivity. Some authorities claim that, whereas schedules of rates are easy to operate for housing maintenance where there is a limited range of well defined jobs, they cannot be used for other property because of
the greater diversity in building type and job specification. This is not the case, as is shown by the increasing number of metropolitan districts and London boroughs which are extending their housing schedules to all other buildings. The counties are also starting to introduce schedules of rates – Gloucestershire CC, for example, has been carrying out a pilot exercise for all its property in the Stroud area.

* * *

124. Maintenance, particularly structural work, is one area of expenditure where low spending may not be good practice. For each of the other property running costs, however, opportunities should be explored for reducing expenditure. These opportunities are discussed below.

THE OPPORTUNITIES

ENERGY EXPENDITURE

125. Expenditure on heating, lighting, etc. represents a prime example of the opportunities for better control of property running costs. The Commission's study of energy use in local authorities in 1985 estimated that substantial savings could be made without affecting comfort or service. About half of these can be secured by good housekeeping measures requiring little investment, i.e. by training building users to be more energy conscious. This can be achieved in a number of ways, including the use of direct incentives – allowing the building user to keep any savings resulting from energy consumption below a specified target. Incentives of this nature are discussed in Chapter 3. The other half of the potential savings requires capital investment to improve the thermal efficiency of buildings and heating plant, but with a payback period of as little as two years.

126. The key elements of good practice in energy management are that council members should agree a policy statement setting out the principles for controlling energy consumption and guidelines for an investment programme to improve the energy efficiency of the buildings. A designated committee should be given overall responsibility for energy management and council members should be presented with an annual report setting out achievements and future plans. A central energy management unit (or officer) should be established to monitor consumption, develop and manage the programme of improvements and raise the level of energy awareness among building users. Staffing levels of about one person per £1 million of energy expenditure are justified. The unit should prepare a plan for investment in a programme of building and plant improvements after appropriate cost/benefit analysis.

127. These means, linked to a system of direct incentives for building users, can be highly successful in controlling expenditure. A parallel can again be drawn with schools in the independent sector. The Manchester Grammar School has been particularly successful in controlling fuel bills. Following an appraisal by specialist energy consultants as part of the Department of Energy's free Energy Survey Scheme, a series of measures has been implemented including splitting the premises into several individual control zones, tighter control and monitoring of temperature and heating cycles, removing heating altogether where not required and the installation of a swimming pool cover. The result has been that expenditure on gas has been almost constant over the last six years in cash terms, i.e. there...
has been a steady reduction in gas consumption. Many local authority schools have benefited from similar improvements.

128. Since the Audit Commission report was published, many local authorities have made encouraging progress in realising the opportunities. Based on the analysis carried out in the study, the auditors of each authority have reported on the local opportunities and produced an action plan with the officers concerned. Exhibit 23 shows the percentage of a sample of authorities which have either adopted each of these recommendations or are likely to approve their adoption in the near future. At the end of March 1987 the total potential savings identified in nearly 350 authorities was over £60 million and further audit work was still in progress in some of these. However, much work remains to be done in many authorities to translate these opportunities into actual achievements.

Exhibit 23

ENERGY MANAGEMENT

Some authorities have adopted the audit recommendations on energy management, but there is still a lot to be done

Source: Analysis of auditors' responses, 1986

RATES

129. Rate payments on local authority property (either by authorities to other authorities or to themselves) represent over 20% of property running cost on average. Even in a small shire county, total rate payments can be as much as £4 million a year, of which
education properties may account for over 75%. Authorities should ensure that they are paying no more than necessary in rates (even to themselves) since there can be clear financial advantages to be gained both in terms of actual expenditure and because of the effect of the block grant system. The prime opportunity is provided by the current and continuing fall in school population since the rateable value of schools is a function of occupancy as well as capacity: by and large, the rateable value of a school should fall as the number of pupils on the roll falls. Although this may be well known to the valuation staff of an authority they may not be aware of the wider implications. In many authorities, rateable values are not annually updated on the false argument that 'it's only money going round in circles'. This can create an anomaly where decisions taken at a relatively low level can produce a local distortion of the block grant allocation. Until April 1987 there would have been no overall gain if all local authorities had tried to take advantage of falling rateable values. Since then, however, the size of the grant pool has not been fixed and it is possible for all authorities to obtain additional grant in this way.

130. There is a number of advantages to local authorities in keeping rateable values in line with falling school rolls. Any reduction in rateable value would be made up in the following year by increases in block grant, and in addition falls in schools' rate payments would reduce total spending by the authority and therefore increase block grant receipts. Cuts in rateable values may also lead to reduced water rates (where supplies are not metered), and environmental service charges.

131. Exhibit 24 shows how a reduction of rateable value (caused by falling school rolls) will lead to lower spending for block grant purposes. Block grant increases both to compensate for the lost rateable value and to 'reward' the lower expenditure. This simplified illustration is based on the 1987–88 budget and rateable value for the City of Coventry. The exhibit shows that a reduction in RV of £30,000 (with a corresponding reduction in expenditure of £73,000 at the current rate poundage), produces an increase in block grant of £108,000, which will be reflected in lower rate bills. These figures are not unrealistic. In Coventry, there was a net decrease in schools' RV of nearly £30,000 resulting from a fall of 1.5% in the number of pupils between 1986 and 1987. For an authority where rateable values have not been revised for say five years, the reduction would be significant.

132. The rating formula (agreed between the Valuation Office and the then Association of Municipal Corporations in 1972) is rather complex. The rateable value of a school is essentially based on the school's area but with a 'superfluity allowance' for unoccupied space. Other allowances cater for age, temporary accommodation and the presence or absence of facilities. It is possible to demonstrate a clear relationship between a change in pupil numbers and a change in RV. Exhibit 25 which has been produced using actual data from two authorities (Coventry and Gloucestershire), shows that as a rule of thumb a 10% change in school roll produces a 9% change in RV. Authorities can thereby produce an immediate estimate to assess whether it is worthwhile devoting resources to a more detailed review.

133. There are other opportunities for reductions in rates payments. Under Section 2 of the Rating (Disabled Persons) Act 1978 it is possible to be granted rate relief for elderly persons' homes, provided the majority of residents are assessed as physically or mentally disabled. Relief also applies to adult training centres, occupational therapy units, sheltered workshops, centres for the blind and special schools. Gloucestershire County Council has been granted rate relief on these types of properties with a total rateable value of nearly £200,000. This results in significant savings to the ratepaying authority (although the block
**Exhibit 24**

**EFFECT OF A CHANGE IN RATEABLE VALUE**

Rating revaluation of schools (as a result of falling rolls) increases block grant

<table>
<thead>
<tr>
<th></th>
<th>BEFORE REVALUATION</th>
<th>AFTER REVALUATION</th>
<th>CHANGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>GRE assessment</td>
<td>(£000)</td>
<td>(£000)</td>
<td>(±)</td>
</tr>
<tr>
<td>Rateable value</td>
<td>142,479</td>
<td>142,479</td>
<td>30</td>
</tr>
<tr>
<td>Budgeted expenditure</td>
<td>43,404</td>
<td>43,374</td>
<td>73</td>
</tr>
<tr>
<td>Block grant</td>
<td>146,882</td>
<td>146,809</td>
<td>109</td>
</tr>
<tr>
<td>Rate borne expenditure</td>
<td>96,233</td>
<td>96,051</td>
<td>182</td>
</tr>
</tbody>
</table>

(Based on 1987-88 budget, block grant and rateable values of the City of Coventry)

**Exhibit 25**

**RATEABLE VALUE (Secondary schools)**

There is a consistent relationship between changes in pupil numbers and changes in rateable value

![Graph showing relationship between pupil numbers and rateable value](image)
grant implications arise only from the reduction in spending since it represents relief of rates payable rather than a reduction in rateable value) and the rating authority is reimbursed by central government for 90% of the lost income.

134. There has been some question over special schools' eligibility for disabled persons' relief. A recent case has clarified the law (Nottinghamshire County Council v Nottingham City Council, 1987). It was considered previously that a rebate would only be granted to a special school if it could be demonstrated that it provided training as well as educational facilities. In the past, this has resulted in rebates being restricted to those special schools which cater for the severely disabled, either mentally or physically. The judgement in the above case effectively abolishes any distinction between education and training, and provides for such relief to be granted to those schools which cater for the more 'moderately disabled' pupils.

CARETAKING AND CLEANING

135. Expenditure on these items was covered in the Commission's report on non-teaching costs in secondary schools in 1984. That report set out a clear recommendation to monitor service performance and listed a number of ways in which productivity could be improved, including revising provincial agreements, introducing productivity schemes, using caretakers' time more effectively, and providing modern materials and equipment. The current study has reaffirmed these opportunities and widened the analysis to take in all buildings, not just secondary schools.

136. The 1984 report highlighted a wide range in the cost of cleaning schools. Taking the basic measurement of cost per square metre, a sample of 140 schools in 12 local education authorities showed a difference of nearly a third between the lower and upper quartile (£5.20 to £6.70 at 1986 prices). Table 7 shows how similar variations are experienced in other types of property, taken from study visits and auditors' analyses for this study.

<table>
<thead>
<tr>
<th>TABLE 7: CLEANING COSTS (£ per m² per annum) (1985–86)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Schools</td>
</tr>
<tr>
<td>--------</td>
</tr>
<tr>
<td>Lower quartile</td>
</tr>
<tr>
<td>Median</td>
</tr>
<tr>
<td>Upper quartile</td>
</tr>
<tr>
<td>No. of properties in sample</td>
</tr>
<tr>
<td>No. of authorities</td>
</tr>
</tbody>
</table>

Source: Audit Commission study team

137. After updating the 1984 figures for inflation, the figures for secondary schools in the present study are almost identical. On this evidence there has been no dramatic change in cleaning costs. One reason may be that such changes take time to implement, but another reason is that cleaning is an activity which does not receive sufficient attention. Although cleaning costs are usually higher than energy costs, there is little consideration by authorities
of what could be termed 'cleaning conservation' schemes, and not enough evidence they are
taking action to control costs and increase efficiency.

138. Nevertheless, since the 1984 report was published, there has been a number of
electing initiatives to improve cleaning management by taking advantage of new
technology. Several authorities have recently introduced a micro-computer package which
makes it considerably easier to determine accurately the cleaning requirements for given
buildings and, with local decisions on required frequencies, to translate the requirements
into a schedule of work required. Work schedules are in any case, a necessary prerequisite to
going out to tender, as required by the new Local Government Bill. Authorities will need
information such as this in order to monitor compliance by contractors and to determine if a
penalty should be applied. Authorities will thus have the opportunity to test whether value
for money is being provided for these and other services.

139. Other authorities are adopting a scientific approach to the selection of floor
coverings. Coventry, for example, set up a working party co-ordinated by the Property
Advisory Group of the Property Services Department, to investigate the full life costs of
different floor finishes. Investigations are continuing but first indications are that use of
standard heavy duty carpet rather than, for example, vinyl floor tiles or vinyl sheet can bring
substantial advantages. Coventry has also carried out an evaluation of the use of 'barrier'
mattting adjacent to entrance doors. Provided the matting is wide enough (several paces,
rather than the more traditional small matwell), considerably less dirt is carried in to the
building, so cleaning frequencies can be reduced. Barrier matting can be expensive but the
benefits can be substantial. Other simple measures were found to be worthwhile: not using
gravel for paths immediately outside doorways, for example, reduced the damage to floor
surfaces.

OTHER COSTS

(i) Insurance

140. Although the cost of property insurance is small in relation to other property
running costs (typically only 2% of the total), in absolute terms the cost can be quite
significant. Insurance costs will vary for different authorities depending on factors such as
the type of authority, its location and the nature and construction of the portfolio. Also
important are management decisions about the length of the agreement, whether the
insurance is on an indemnity or reinstatement basis, the range of perils to be covered, and so
on. Even in a relatively small county, with perhaps 300 schools and fewer than 150 other
direct service properties, the annual insurance premium is likely to be at least £250,000.

141. It is good management practice to review periodically (perhaps every three years) the
premium paid in relation to the claims made. If, averaged over several years, the total premium
outweighs the claims made, then there should be scope for negotiating a reduction in the
premium even within an existing long term agreement. It is good practice occasionally to
seek competitive tenders for insurance rather than automatically to renew with the same
insurer. Before doing so, it is important to review the authority's policy on the risks to be
covered internally. It is also worthwhile analysing the claims history for different types of
property – the risk to elderly persons' homes is generally less than for schools and this should
be reflected in the rate of premium.

142. Perhaps most important is for authorities to analyse the underlying causes of property loss
or damage which lead to insurance claims, in order to take preventive measures. 'Risk
improvement', even if this costs money initially, can bring future benefits by reducing the long term cost of insurance. Not least of the associated benefits is the avoidance of the disruption to services and additional expenditure incurred to maintain essential services until replacement buildings are available. Although the actual cost of, for example, hire of a temporary building can be insured against, it is very difficult to make good the lack of continuity to a child's education or to compensate for the stress caused to old people through disturbance or the loss of personal possessions. Advice on risk improvement is readily available from insurance companies. MMI, for example, has developed a micro-computer claims handling and analysis system to monitor insurance losses. Although its primary use will be for vehicle and general insurance claims it can also be used for property claims. Trials of the system are currently in progress and it is being offered to all authorities. Over time it will be possible to build up data on insurance claims which could be analysed to produce advice on, for example, particular building design risks.

(ii) Grounds Maintenance

143. In many authorities the maintenance of grounds (including mowing of school playing fields, gardening at elderly persons' homes and landscaping of central office buildings) is the responsibility of a central department. In others, the major user will carry out all the work and recharge other departments. As with other property running costs, fewer than half of the authorities studied were able to attribute costs to individual properties. The problems are twofold: first, the level of service is usually outside the control of the building occupier (and even the responsible department); and, second, the costs may not be identifiable for individual buildings. Typically, a maintenance round will be assembled (by the management services department) to use the resources most efficiently: thus a mowing team might spend a morning on one secondary school, then move on to a nearby housing estate and finish the day mowing highway verges. Although the areas to be cut will be measured in order to build up the work schedule, no attempt will be made to cost each component part of the schedule in order to allocate the costs appropriately. At the year end the apportionment of the total costs to each departmental budget may, as with other central establishment charges, be made on a relatively arbitrary basis, known only to the finance department. Thus even figures for total departmental expenditure may be suspect.

144. One authority visited by the study team has overcome these problems. The authority has a 'green budget' of over £3 million, managed by the recreation services manager. Of this, about 75% is either for the department's own properties (e.g. parks and recreation grounds) or housing estate work. Of the remainder, nearly half represents work for the education department. A level of service and corresponding charge is agreed with the service department on a time basis for each property to be covered, with advice from the recreation department about relative costs of maintenance (e.g. grass compared with shrubs) and the frequency of mowing. The actual charge made can vary depending on, for example, the amount of site preparation required (e.g. clearance of rubbish) and the weather (in a dry summer the frequency of cut can be reduced). The cost of the work at each school or home is identifiable via the financial information system and the clients of the service can be confident that they get what they pay for.

145. A full discussion of grounds maintenance is outside the scope of this report: a separate Audit Commission special study on parks and recreation grounds, planned for next year, will include these aspects. In the meantime authorities should be aware of the potential opportunities for value improvement. These include action by the client departments to obtain a more cost efficient choice of layout and landscaping – flower beds broken up by paths are
more expensive to maintain than ground cover shrubberies for example. The maintenance consequences of landscaping decisions should also be taken into account, not just the amenity value. The use of all-weather playing surfaces should also be considered where appropriate, to reduce both the cost of maintenance and the number of occasions when sports pitches cannot be used. (This idea must be approached with caution, however – one authority installed a matting cricket pitch only to find that one night it had been rolled up and stolen!).

146. The contracting department or DLO also needs to consider its own efficiency. Maintenance should be co-ordinated so that efficient schedules can be derived. Productivity can also be improved by the introduction of more advanced machinery and proper control of bonus schemes.

147. Above all else, local authorities ought to prepare detailed specifications (and hence budgets) for all the tasks of grounds maintenance to be performed, including the volume, frequency and timing of maintenance. The budgets can thus be related to the output required and the activities of the workforce can be determined on a week to week basis. As described for cleaning duties, such a specification will be a necessary preliminary to the compulsory tendering legislation currently proposed by central government. This will be most useful if specifications wherever possible show the output to be achieved rather than the number of tasks to be performed, e.g. a grass cutting schedule should be flexible (depending on, for example, the weather) rather than specifying a fixed number of cuts per year.

(iii) Vandalism

148. One property 'cost' which may be substantial in many authorities, but which may not be readily identifiable, is the cost of rectifying deliberate damage to an authority's buildings. In the survey of authorities carried out by local auditors, less than a third were able to extract expenditure from the financial information system on vandalism to property and even then not for all committees. At one authority, a study carried out by the district auditor estimated that the total cost of vandalism to the authority in 1984–85 exceeded £1 million, equivalent to almost a 3p rate. It was felt that this may have been an underestimate, as some departments kept no detailed records, or included the cost of vandalism repairs in normal repairs and maintenance expenditure. Excluding housing and the cost of arson, which could give rise to substantial one-off expenditure, the authority suffered nearly £250,000 worth of deliberate damage. While confirming that many authorities do not keep information on the cost of vandalism, a recent report* by LAMSAC has estimated that up to 15% of the total day to day repairs budget may be involved. The substantial sums being wasted every year could be better used.

149. Efforts to minimise this additional burden of expenditure should be encouraged in all authorities. A first step, as with any other property related expenditure, is for an authority to identify the size of the problem, i.e. whether repairs and maintenance are caused by vandalism or 'fair wear and tear'. Even though the distinction may at times be blurred, authorities should know the approximate cost of deliberate damage. The figures must, of course, be interpreted with caution – at one authority it appeared that there had been a sudden increase in vandalism as shown by the cost of repair work. In fact, on analysis, the increased

Expenditure resulted from a policy decision to replace broken windows with polycarbonate sheet, rather than glass, in order to minimise further breakages.

150. Having identified the scale of the problem every authority should prepare a co-ordinated policy response. Authorities should produce an agreed action programme to tackle the problem, based on a willingness to spend money on preventive measures in order to save money spent on needless repairs. Measures which could reduce vandalism are summarised in Exhibit 26.

Exhibit 26

TACKLING THE PROBLEM OF VANDALISM

There are many practical steps which can reduce the incidence and cost of vandalism.
This chapter has outlined the opportunities for improved value for money from property running costs. The most important way of reducing such expenditure is by ensuring that money is spent only on the right amount of property. But even for a given level of occupancy, unit costs can vary by ±20%. Users must play their part in controlling property running costs. Authorities should adopt a ‘cost centre culture’ to encourage building users to monitor and control expenditure as if it were their own. This is one aspect of the management arrangements which are discussed in the next chapter.
3. Realising the Opportunities

152. The first two chapters considered in turn the need to make better use of the property resource and the control of property running costs. This chapter discusses how authorities can create the environment to ensure that the various good practices described can be put into effect. The circumstances in which each authority manages its property holdings can be very different even in neighbouring authorities, and more so from one end of the country to the other. As a consequence, the relative importance of the issues identified are likely to vary and the nature and size of benefits resulting from improved management of property will not be the same in all authorities. However, the Commission believes that in all authorities there are opportunities for value improvements which can be translated into improved services.

153. These value improvements can only be effected if appropriate management arrangements are in place. In particular:

- There needs to be a system of incentives for the building occupiers, service committees and departments, and the community, to encourage rational property use.
- There should be an appropriate committee structure with clear lines of responsibility.
- The central department(s) concerned with property need to have clear goals and be appropriately organised.
- Service departments and building users should be accountable for the bulk of running costs of their buildings.

154. There are some property management functions which require firm central control and direction, and some which should be exercised by the property occupier. The definition of responsibilities for each party will of course reflect local circumstances (e.g. size of authority, nature of the property portfolio) as well as political and management choice, but there are clearly some overriding principles. Property must at all times be considered as a dynamic resource, the management of which must be capable of change as circumstances change.

155. Recently there has been a move away from the corporate central management concept of the mid 1970s towards more decentralised responsibility. In property terms this has resulted in greater delegation to building occupiers/managers. Several authorities have carried out pilot studies whereby, for example, an individual head teacher takes on more of the role of property manager as well as that of service delivery in the traditional narrow sense. In this respect the school would be managed in a way closer to that of colleges and polytechnics i.e. an individual institution rather than as one of many service delivery points. One consequence of this arrangement is the need to train head teachers to be capable property managers so that the children's education is not adversely affected.

156. The DES has identified over 20 LEAs that operate schemes of financial delegation.
although most are still at the pilot stage and few involve a significant proportion of expenditure on property running costs. The schemes vary from authority to authority. Solihull, for example, allocates slightly over 50% of its maintenance budget to the control of schools with the remainder retained by the authority. Schools are responsible for minor day to day maintenance (repairing windows, for example), internal decoration and very minor improvements. The authority itself handles major structural repairs, external decorations and all electrical work. The scheme includes expenditure on energy (where the budget is based on actual consumption over a 3 year period prior to admittance to the scheme) and grounds maintenance where schools are responsible for the frequency of grass mowing subject to an overall constraint that mowing takes place at least once every four weeks. A pilot scheme in 12 schools in Kent from April 1987 similarly allows discretion at the local level in, for example, some building maintenance, including minor improvements up to the value of £500 per job.

157. Cambridgeshire has experimented with local financial management since 1982 when a pilot study was started in six secondary schools. The scheme specifically excluded property maintenance (which requires specialist skills) and administrative support and grounds upkeep. Maintenance expenditure previously under the control of service committees was transferred to the property sub-committee. In 1985–86 a further three year pilot scheme was set up involving the appointment of a local ‘property bursar’ in six areas. Each bursar is based at a major secondary school or college and is responsible for a group of about 20 properties across all services in the area. The bursar’s responsibilities include caretaking and cleaning, grounds maintenance, repairs and improvements, heating and energy conservation. A recent change to the scheme is that bursars are given a local budget for maintenance and minor improvements rather than controlling expenditure from the overall budget. The experiment will be evaluated between November 1987 and April 1988 in order to decide whether it should be extended to other parts of the county. A forthcoming Audit Commission study of LEA management and administration will include the current trials and the latest proposals for increased delegation of this nature.

158. This is an area where legislation is likely to have a major impact. The current Education Reform Bill sets out the government’s proposals. Schools will be able to benefit from their own efficiency savings with decisions on how the savings should be used made by head teachers and governors. The bill does not envisage local authorities relinquishing control over capital expenditure including that for strategic maintenance. It also leaves open for local decision the definition of which items of repair and maintenance expenditure it would be appropriate to delegate to school governors.

159. In summary, the Commission believes that there are certain property functions of a more strategic nature, which are essential to preserve the authority’s asset and which must be centrally controlled. Conversely, decisions about day to day running of buildings and expenditure on non-strategic items could and should be taken at service committee or property occupier level. This balance of responsibility is summarised in Exhibit 27.

160. Provided there is a system of realistic incentives, as discussed below, to ensure that those making the decisions are directly aware of the consequences of their decisions, there is no need for a central committee to become involved. This division of responsibilities can be described as a ‘landlord and tenant’ relationship (although of course not in the strict legal sense). The strategic issues are those that concern the landlord – the authority as a whole, and the non-strategic issues – the tenant, which may be represented by a service committee.
Good property management requires a balance of responsibilities between the centre and the services.

**INCENTIVES**

**REVENUE AND CAPITAL INCENTIVES**

161. Ideally, incentives should not be necessary to persuade service managers to yield surplus property. In many authorities, however, where historically property has not been regarded as a corporate resource and where there are inevitably conflicting demands on resources, incentives have an essential part to play in the good management of property. These incentives should reflect local circumstances. Where land values are low, the major incentive is provided by potential revenue savings: users should be aware of property running costs and what can be done to reduce them; in other authorities the primary incentive needs to be related to property opportunity values. There may well be an 'administrative overhead' associated with the introduction of incentives (developing procedures, arguments, etc) but the system will still be worth the effort.
162. Incentives related to the property can emphasise either the capital or the revenue effect of declaring property as surplus. Some authorities allow a user department to retain a proportion of the capital receipt for investment in other projects. Alternatively, it can be credited with all (or a proportion) of the revenue effect of any release of property. For example:

- the surrendering committee might receive the equivalent of the interest on the capital receipt from a sale or, where appropriated to other purposes, an annual credit based on the market value;
- there can be a reduction in a service committee’s outstanding loan debt with the loans pool by an amount equal to the capital value, with the consequent reduction to its debt charges.

163. Incentives based on the revenue equivalent of capital can thus reflect economic reality. The surrendering committee only gains what the authority can save by discharging outstanding debt once any sale is completed. If the property is in fact used for some other purpose then the new users should be charged the equivalent of its value, to balance the credit given to the surrendering committee. Incentives are often used by authorities at times of cut backs. Service committees might be allowed to credit the annual value (say 10%) of any property that is surrendered towards their targeted revenue savings. In this way the alternatives of surrendering property and cutting services can be examined.

164. There are other potential revenue incentives, as mentioned briefly in Chapter 2. Closure of a property surplus to requirements results in immediate savings – maintenance, energy, cleaning, etc. In many authorities these savings can be retained in the service budget as any savings resulting from economy measures affecting property running costs.

165. Table 8 shows the results of a survey carried out by local audit staff of the extent to which incentives of the type described are in use. Some authorities apply these in combination, depending on the circumstances. The sample of authorities was taken in three areas – the north east, the midlands and the south west and includes authorities of different types and sizes. Just over half the authorities employed one or more incentives to encourage better use of property.

<table>
<thead>
<tr>
<th>Type of incentive</th>
<th>No. of authorities using</th>
<th>% of sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recycling of capital (or equivalent)</td>
<td>8</td>
<td>31</td>
</tr>
<tr>
<td>Reduction in loan debt</td>
<td>3</td>
<td>12</td>
</tr>
<tr>
<td>Revenue cost savings</td>
<td>6</td>
<td>23</td>
</tr>
<tr>
<td>Budget constraints</td>
<td>3</td>
<td>12</td>
</tr>
<tr>
<td>No incentives</td>
<td>12</td>
<td>46</td>
</tr>
</tbody>
</table>

Total authorities in survey 26

Source: District Audit Staff

166. Incentives can take the form of ‘sticks’ as well as ‘carrots’. Running cost yardsticks can be set for building users, who bear the extra cost if the yardstick is not achieved as well as benefiting from any savings against the yardstick. Some authorities have employed such a system to control energy expenditure.
ASSET RENTS

167. One way in which a few authorities have introduced incentives is through asset rents. User committees are charged a rent for all property, and if they surrender property they can use the rent saved for other purposes. Such rents could be based on insured value, current use value or market value. Each basis has its disadvantages. Firstly, insurance values or current use values may be very different from market values. Thus, although they are easier to determine in most circumstances, they can lead to situations where the credit upon surrender is very different from the proceeds from sale. The current use value of a school can differ from market value if either:

(i) the school is in the city centre and the site itself may be worth considerably more if developed as housing or offices;
(ii) the school is in ‘green belt’ or a depressed economic area and the site is virtually worthless for other purposes.

168. Similar problems occur outside local authority property management. The report* of the enquiry into property management in the NHS (chaired by Ceri Davies) proposed, as an interim measure, that charges should be made on current use value, but recognised the fundamental weakness of such an approach. It does not take account of different land values; for example, teaching hospital sites in London may be extremely valuable whereas hospital sites in the ‘green belt’ may have little development potential. On the other hand, while market values reflect economic reality, they are very time consuming to calculate and they rest on assumptions about planning decisions which may be contentious and in many cases hypothetical. Much of the time spent in calculating asset rents in this way will be wasted since the present use of many buildings will never change.

169. An asset rents system poses a particular problem in the treatment of capital expenditure for the development of property for the special needs of the occupier which is not reflected in increased property value. For example, the asset rent of a school may be based on the open market value of the site: the addition of new science laboratories may increase the current use value and the insurance value but will have no affect on the site value. If the development is to be ‘paid for’ by an increase in the rent, a distortion of the system is introduced and, were the school to be closed, the eventual receipt from disposal of the site would not be sufficient to cover the increased rent saved by the service department.

170. Despite these difficulties, the system may have advantages for property management especially in areas of high land values such as the City of Westminster. The City has created a property holding account which is debited with the costs of the property department, repairs and maintenance, debt charges and rentals for buildings. The account is credited with the asset rent charged to each user, which is based on the opportunity cost value of each establishment. Asset rents may be especially appropriate in relation to land held in advance of service requirements and the charging of ‘market rents’ for property used for charitable purposes is in effect the equivalent of asset rents. Apart from the City of Westminster there are very few authorities where asset rents based on market values are being introduced on a comprehensive basis. Some authorities are continuing to explore ways in which difficulties such as those described above can be overcome. St Helens Metropolitan Borough Council, for example, has taken the decision in principle to transfer all property to a central property committee and work is continuing to determine how best to implement the decision.

* Underused and Surplus Property in the National Health Service, HMSO, 1983.
The City of Coventry is also devising a pilot scheme to cover a group of selected properties including offices, depots, city centre properties and any sites with development potential (identified in liaison with the city planning department). Suffolk County Council has also taken a selective approach related to the type of property. The scheme is restricted to administrative office accommodation, for which there is a readily identifiable market. It is easy to obtain comparative values and there is a potential market for unwanted space, even individual buildings in the County Hall complex. Following an initial appraisal of space requirements based on accepted standards, all committees are charged a rental for the office space occupied and can retain in their budgets any savings which arise if usable amounts of space are relinquished. The system has been in use since 1986 and has recently been extended to include local area offices. The scheme has stimulated efforts to release space and has provided the necessary incentive to deal with the short-term problems of rationalising use of accommodation. Significant areas have been released: these have been used to accommodate increased staff numbers in some departments without additional office space being provided.

The NHS has itself not yet adopted an asset rent system – consideration is still being given to the accounting implications. The Commission's view is that an asset rent system is unlikely to be of practical benefit for most direct service property (apart from the limited applications described above) in view of the administrative effort to set up and maintain and the uncertainties of valuation. Many in local government hold similar views: SOLACE, for example, believes the idea is of limited use and RICS does not support the general applications of asset rents.

Of course any system of incentives which focuses on recycling of capital or the revenue effect of surrender can only encourage full use of property where market values are of significance; where they are small then the greater incentive will be to save the running costs. This implies that users must be aware of these property by property. The need for such management information was discussed earlier in Chapter 2. However, whatever system of incentives is in place, there will always be unforeseen effects – there is no such thing as a perfect system of incentives. One perverse effect of incentives based on either capital or its revenue equivalent, or even those based on the retention of running costs saved, is that it could reward those who have been inefficient in the past.

If capital incentives are introduced those who have already rationalised their property holdings will have nothing to surrender, but those who have done little or nothing will obtain a large ‘windfall’ gain. Furthermore, incentives based on property values must also take account of the future need for particular services, e.g. the growth or contraction of the client population. This is not an argument against incentives since the laggards obviously need incentives to behave more rationally, but it does mean that the policy committee needs to recognise this effect when allocating committee budgets and determining longer term plans. Incentives based on property values should only be introduced after a review of the authority’s property holdings, service by service, in order to define a rational starting point. In the light of the potential perverse effects, any system of incentives needs to be monitored. Any incentives must be seen in the context of the overall corporate planning framework of the authority in order to avoid distortions to priorities. This is the role of the central committee concerned with property.

COMMITTEE RESPONSIBILITIES

Some councils have a land and buildings or property committee, either as a
sub-committee of the policy committee or as an independent committee concerned with property management generally. However, such arrangements are not always effective because the powers and duties of such committees are often limited or even conflict with those of service committees. As a result, such committees are frustrated and confused as to their real role. In particular, they may be charged with the disposal of property but have no influence over what is declared surplus. Again, although the property committee may have an oversight of maintenance policy, the determination of maintenance budgets may be purely a matter for the service committees. Their status is further eroded if the policy committee itself chooses to control major property related activities such as town centre redevelopments.

176. Given these potential tensions, the role of any such property committee needs to be carefully determined. The key, the Commission believes, is a proper consideration by each authority of those aspects of property management which affect the delivery of services by the occupying committee and those which are related to the preservation of property as a long term asset, irrespective of its current use. The responsibilities of the property committee for the various types of property defined in Chapter 1 are described in Exhibit 28. In addition to its line responsibilities the property committee will need to ensure that service committees monitor and control their property running costs and are aware of the opportunity cost of high value sites.

177. The property committee’s role in respect of surplus property is shown in schematic form in Exhibit 29. Its duty is to decide whether surplus property should be sold, switched to the commercial portfolio or used by another committee (with the new service committee being charged as if the property had been purchased). The property committee should be accountable for the establishment and monitoring of a disposals policy and the speed of disposal. It should also initiate periodic reviews of land held in advance of requirements, in particular to ensure that any properties acquired because of planning blight are still so affected.

178. The arrangements described above may not be appropriate for every council given the variable nature of their property holdings. Small district councils may not need a separate committee if the volume of business is likely to be small although it is still recommended that a designated sub-committee should deal with all property related matters. Conversely, very large councils may have sub-committees for particular aspects, e.g. smallholdings. Even where there is an economic development committee or where parts of the tenanted portfolio are managed by service committees, the property committee should still set the rents and determine the 'landlord's' maintenance budget. The committee should also ensure that the market rents are clear and any consequent subsidies are identified.

179. Setting up a property committee (or sub-committee) need not mean the creation of an additional committee. It can often replace an existing estates committee, perhaps, taking on the wider responsibilities needed for the more strategic management of all the council’s property.

MANAGING THE INVESTMENT PORTFOLIO

180. It should be the task of the property committee (perhaps subject to direction from the policy and resources committee) to determine the strategic investment policies for the council's investment property. The extent of holdings of this type of property varies significantly from one authority to another and is not necessarily related to the size or function of the authority. However, very few authorities even with substantial investment
THE PROPERTY COMMITTEE'S RESPONSIBILITIES

The property committee has responsibilities throughout the life of the assets.
Exhibit 29

THE DISPOSAL PROCESS

The development potential of a site should be determined before its future use is considered.

Portfolios have established policies for investment, nor have they developed the means of appraising their performance against these objectives. Exhibit 30 sets out the necessary action.

181. The property committee, through the property manager, should keep the investment portfolio under constant review in order to meet the authority's targets. It will need to consider opportunities for improving the quality of the investments, either for capital appreciation or revenue return, and dispose of poor performers unlikely to contribute sufficiently to the authority's targets. An annual report should be prepared in the form of a profit and loss account for the portfolio as a trading undertaking: at intervals of certainly not more than five years, a revaluation of the portfolio should be carried out to assess capital appreciation. Ideally, the property manager should have access to a reserved capital fund for property acquisition or development and into which disposal proceeds would be credited. The investment portfolio would then comprise both investment property and unapplied capital. Movements into and out of the investment fund and to the council's statutory services would be clearly identified. Leicester City Council's Corporate Estate Fund operates in this way.
MANAGING THE INVESTMENT PORTFOLIO

The performance of the investment portfolio should be regularly assessed and opportunities for improvement sought.

THE ORGANISATION AT OFFICER LEVEL

182. The overall committee responsibilities need to be reflected at officer level. The most important role is that of the chief executive who must ensure that the officers’ attention is directed to the property resource. This involves all those connected with property: the property users (i.e. service departments), the property professionals (architects’ department, valuation department, etc.), and other central departments (treasurer’s, legal, etc). The chief executive must provide the central direction and ensure co-ordination. A wide range of professional property skills is needed to support the property committee functions set out above and the residual property functions of the service committees. Councils choose to organise the departments responsible for these functions in many different combinations. There can be separate architects, estates, planning and works departments, while in other authorities, some or all of these functions may be combined into a 'property department'.

PROPERTY DEPARTMENTS

183. Many county authorities have recently set up property departments or their equivalent. COPROP now has 26 members, more than half the counties in England and
Wales. Typically property departments have been formed by a combination of an estates department and architectural services. Estates departments traditionally are responsible in county authorities for farms, smallholdings, forests, country parks and the acquisition and management of land resources. In urban areas they are responsible for the investment portfolio, city centre shops and commercial offices and in some authorities for factories and industrial estates also. The skills required include those of a land agent, valuation, surveying, and negotiation with tenants and the private sector. Normally an estates department would have limited involvement with service property, except for the acquisition of land for identified future requirements, the temporary letting of property not immediately required by the service or the disposal of surplus property. An architects’ department on the other hand would contain the specialist skills required to design and maintain buildings – architects, quantity surveyors, mechanical and electrical engineers and building maintenance surveyors, for example.

184. Combining these two sets of professional skills in a central property department can have several advantages:
- it ensures that the management of property is focused on both property values and running costs;
- the overheads should be reduced compared with those of a number of independent departments;
- the council has a single department with primary responsibility to support all committees and officers on property matters;
- it signals that property has been recognised as a resource and that the authority intends to pay increasing attention to it so that service needs can be most effectively met;
- it enables members to give clearer political direction on property matters;
- it provides a cohesive link with other central functions.

185. The recent increase in the number of authorities with a property department has taken place largely in the counties. A few of the other larger authorities, e.g. Coventry and Westminster, have also followed the same path although there is no national association equivalent to COPROP for these authorities. Some councils have included the planning function within the property department. Opinion in local authorities is divided on its proper location. The RICS sees a potential for conflict even if each professional role is performed with integrity and judgement. On the other hand, COPROP already represents three combined planning and estates departments where it is felt that the advantages outweigh the disadvantages. Whilst planning has a key role concerned with strategic land use and hence in determining development opportunities which affect the opportunity cost of existing land and property, it also has an independent quasi-judicial role in controlling development, and there are inevitable tensions between developers and planners, even if they both work for the same council. If both are in the same department then it might be felt that the planners are favouring the council's developers at the expense of the private sector, or, conversely, that planners are suppressing development opportunities and the financial rewards which they might bring in order to achieve planning gains which could not necessarily be imposed on a private sector owner.

186. In many schemes involving development of council owned land, a compromise needs to be struck between maximising environmental gain and maximising economic return. Where to strike the balance will be a matter for the authority. However, the Commission believes that where the development control role of planning and valuation professionals are merged in one department under a single chief officer, he/she must ensure
that relevant advice is available to the members from all his/her officers. The authority must be satisfied that it is receiving objective advice and that there is a separation of functions between those responsible for promoting development opportunities and the development control process. However, authorities should recognise that planning can have a key role in the identification and pursuit of development opportunities aimed at employment generation.

187. One of the problems associated with setting up a multi-skilled property department, but one which if solved successfully can be a significant benefit, is the integration of the staff from different professional backgrounds and training. One county property officer found he inherited no fewer than 11 different professional sections when his new department was formed. There are two sides to the problem – the different outlook of each specialist governed by his/her own area of responsibility for property management, and the traditional hierarchy, or perceived 'pecking order', between the professions.

188. The solutions will ultimately be provided by better education and training. There is increasing acceptance of the need for property professionals at senior levels, able to provide a comprehensive property management service, rather than the products of the traditional training such as architects or chartered surveyors. The professional bodies and societies in local government are taking positive steps to widen the perspective of their members and to provide appropriate training, e.g. in the last three years RICS has promoted post graduate courses in project management, the marketing of property, and property investment. The chief officers making up the membership of COPROP comes from a variety of professional backgrounds. As at January 1988 there were 12 with an architectural background, eight with valuation or estates background, two planners, two civil engineers, a building surveyor and a quantity surveyor. This confirms the view that there is no single profession dominant in property management. Even so there is a need to overcome the historic professional jealousies within the property function. The priority is for all professional interests to co-operate and co-ordinate their new role to achieve effective management of the property resource.

189. If the council chooses to form a property department, then the department ought to be structured on a truly integrated basis and the property management functions (as distinct from, for example, the technical architectural design work) ought not to be organised into the original constituent departments and professional groups. Such issues as property review, property running costs, energy conservation and the maintenance of the asset require a multi-disciplinary approach. The organisation ought to be based on function rather than professional specialisation. Cumbria, for example, reflects this principle by organising its property department by function as a series of 'business units' comparable with commercial practice. Another model might be to group professionals into multi-disciplinary geographical teams.

190. The formation of a property department is only likely to be successful if it has a clearly defined role distinct from the duties of service departments and is also a part of the power structure of the authority. Some property departments have been by-passed by service departments and have no power to audit the current use of property, no system of incentives to encourage property review and no influence over the property decisions of user committees. Such departments are likely to spend their time creating information systems and producing data on property running costs which is never used by service departments. The mere fact of establishing a property department will not of itself solve any underlying problems. The department needs the support of members and the chief executive, and to
have a chief officer of comparable status to other chief officers. Authorities that decide
against this approach (and particularly the smaller districts where a separate department
probably will not be justified) need to ensure that the roles of the various departments
involved in property management are clearly defined and co-ordinated.

191. Whatever the organisation at officer level, arrangements need to be in place to
ensure that in-house architectural and estates services staff are efficient and effective.
Although they represent only 11% and 3% respectively of central support staff, clear
objectives need to be set and performance monitored, preferably by means of practice
accounts, which are now being used by many authorities. Such accounts are credited with
the value of the work done and debited with its cost, based on the recorded staff time on each
activity and the appropriate overheads. Given the value of the property portfolio, the key
measure must be the effectiveness of such staff, rather than narrow measures of efficiency and
comparative costs with the private sector.

*   *   *

192. This report has so far described the current state of property management in local
authorities, discussed the shortcomings of the approach adopted in many authorities (and
the resulting problems), and suggested ways in which improvements can be made. If the
benefits of these improvements are to be realised, positive action is required – by local
government members and officers, by central government and by others. The necessary steps
are described in the final chapter.
4. What Needs to be Done

ACTION BY LOCAL GOVERNMENT

193. This report has argued that, although local authorities have begun recently to pay more attention to the substantial property resource, there is scope for further improvement. This chapter sets out a checklist of policies and actions that many authorities are now considering. There is still ample scope for improvement in almost every authority, if only because of the size of the task and the challenge of managing property in a political environment. First and foremost, local authorities must ensure that they have an appropriate vision, and that a strategy to achieve it is in place. They should ensure that there is a recognition throughout the authority that:

- Property must be held for a specified purpose and not as a left over from some previous policy.
- Property, however acquired, is rarely 'free'. Using a property for one purpose precludes its use for other purposes. Users as well as central staff and committees must recognise the opportunity cost of their decisions.
- Property is a dynamic resource, whose purpose and use must be continually reviewed in the context of the local authority as a whole.
- The running costs of direct service property must be identified and controlled. This requires the creation of a 'cost centre culture' whereby users assume responsibility for these costs even when other departments may provide advice and services in respect of energy, maintenance, cleaning standards, etc.

To effect such an approach requires a lead at member level.

MEMBER RESPONSIBILITIES

194. Save in the smallest authorities, councils should create a committee (or a sub-committee of the policy committee) with specific property related duties. Its importance should ensure that its chairman is seen as of equivalent status to the chairman of the major service committees. The committee's duties should include both 'line' and 'staff responsibilities.

Line responsibilities:
- determining the future use of surplus property;
- accounting for the receipts from property earmarked for disposal and for the time taken for the disposal;
- accounting for the performance of the investment portfolio;
- determining the relative priorities and the consequent programmes of structural maintenance in the light of an agreed five year maintenance plan.

Staff responsibilities:
- examining the control exercised by service committees over property running costs;
- initiating property reviews;
- ensuring that any subsidies for tenanted service property are clear and overt;
– advising on energy conservation and other measures designed to reduce property running costs;
– the creation of a system of incentives aimed at encouraging good property management by service committees, departments and building users.

OFFICER RESPONSIBILITIES

195. Many authorities have signalled their concern about property by creating property departments. However, without a complementary effort by other central departments, service departments and users, such departments are almost certain to be frustrated. Thus the chief executive, treasurer and other chief officers also have a key role. Indeed, where the roles of the various chief officers are clearly defined and co-ordinated it may not be necessary or appropriate to create a property department as such. Whatever the officer organisation there are a number of key tasks to be performed. These are summarised in Exhibit 31.

ACTION BY CENTRAL GOVERNMENT

196. Central government also has a part to play in helping local authorities to adopt a more dynamic attitude to the management of their property resources. The DOE has already announced that it is considering changes to the capital controls system, to be introduced with the new community charge in April 1990. A Consultation Paper has yet to be issued, but central government ought to use the opportunity to find means of providing local authorities with greater incentive to realise capital receipts from surplus property holdings. Although the 'back to back' schemes go some way towards this they are at present far too restricted to realise the full potential. In particular there should be greater recognition of the need to raise capital in order to make investment in schemes which in the longer term will save both revenue and capital resources.

197. The new Local Government Bill contains proposals to strengthen the Secretary of State's powers relating to the register of unused and underused land. Incentives to authorities are likely to be more productive than an adversarial approach.

198. The current legislation on education may also have an impact on local authority property management. The Commission, in its response to the consultation papers on the government's proposed education reforms, drew attention to the possibility that the 'opting out' proposals could slow down plans for school rationalisation, and emphasised the importance of rapid decisions by central government on school closure proposals submitted by local authorities.

ACTION BY OTHER BODIES

ACCOUNTING FOR PROPERTY

199. One of the major obstacles to a more rational view of property in local authorities in the absence of a general consensus on how it should be treated for accounting purposes. The view held by many chief officers that some buildings are 'free' because all outstanding debt has been extinguished is not compatible with good property management practice. CIPFA has set up a working party to review the whole issue of capital accounting in local authorities. The working party consists of representatives of CIPFA itself, the Audit Commission, senior local government finance officers and private accountancy firms engaged in local authority audit work. The working party will report in 1988.

PROPERTY VFM WORK

200. The Commission's appointed auditors are now carrying out a detailed review of
**BEST PRACTICE IN PROPERTY MANAGEMENT**

**MANAGEMENT ARRANGEMENTS**
- Define responsibility for property at member level: set up a property committee or equivalent body to determine strategy for managing the resource.
- Set up an executive unit at officer level to review property holdings and property running costs.
- Use incentives to persuade users to improve utilisation and control of property running costs.
- Set out property management responsibilities:
  - of the property committee and other central support committees, and relevant chief officers.
  - of service committees and service chief officers.
  - of building occupiers.

**PROPERTY OWNERSHIP**
- Identify all property owned (or otherwise controlled), together with location, size and use.
- Define criteria and measure the use of direct service property.
- Survey the condition of the stock.
- Prepare a five year maintenance plan taking account of the age profile of the stock.
- Ensure that service committees are charged the opportunity cost of tenanted service property and vacant property.
- Identify the full extent of vacant property.
- Ensure that service committees do not re-use surplus property for some other purpose without reference to the property committee.

**PROPERTY RUNNING COSTS**
- Define cost centres for each (major) property.
- Produce regular and timely cost data that can be linked to non-financial data (number of pupils, floor area, etc) to facilitate performance measures.
- Ensure that the different cost elements (cleaning, maintenance, energy, etc) are separately reported and that the information is available to building users.
- Produce league tables of unit costs for libraries, secondary schools, etc.
- Identify programmes to improve efficiency in respect of energy, cleaning, maintenance, etc.
- Review the rateable value of schools in the light of falling rolls.

**PROPERTY REVIEW**
- Institute a programme of reviews either on a service or an area basis, or both.
- Bring information on utilisation and property running costs into the review process.
- Ensure that such reviews are undertaken by staff of sufficient seniority to speak and bargain for their department.
- Ensure that these reviews are short and focused.
- Ensure that users are aware of the opportunity value of their sites where these are significantly higher than present use value.

**TENANTED PROPERTY**
- Define a rationale for holding tenanted property.
- Categorise the portfolio according to the objectives for which it is held (service delivery, investment).
- Make explicit the costs of services delivered indirectly through the provision of tenanted property.
- Value the investment portfolio to determine the rate of return being achieved.
- Examine the need to invest in tenanted property to improve performance.
- Ensure rents are reviewed on the due dates.
property management in all authorities in England and Wales. The scope of this study of property management has necessarily been wide ranging. There are several property related issues which require more detailed consideration and which will be the subject of forthcoming Audit Commission special studies. Among these are:

- the management of local authority direct labour maintenance organisations;
- grounds maintenance and the management of sports and recreation facilities;
- the property requirements for the delivery of operational police services;
- the management and administration of local education authorities.

201. Property management in a local government context is not easy – change is inevitably unpopular with those who are particularly affected. Nevertheless, many authorities have recognised the need for a greater emphasis on active property management. Progress has been slow in part because of the differences in the physical and political environment in which different authorities must operate. The Commission believes that this report will help authorities in the process.

202. Local authorities are increasingly seen as under threat: some proposals for the future delivery of services have major implications for the property resource. If authorities are to be able to respond to these challenges they will need to demonstrate that their property holdings, both for service delivery and for commercial reasons, are being wisely managed. If they cannot, then the arguments for continued involvement with property will be seriously weakened.
APPENDICES

The following appendices are included in this report:

A A summary of the working party's report on property information systems.

B Office accommodation: space utilisation standards.

C A summary of the working party's report on the definitions of property running cost items.

D A description of a model which can be used to produce a profile of future need for expenditure on maintenance resulting from the age profile of existing educational buildings.
APPENDIX A: AN OUTLINE OF CORE DATA ITEMS FOR A PROPERTY DATABASE

INTRODUCTION

1. This appendix summarises the findings of a working party set up to define the basic property data items which should be contained in a property database. The working party consisted of representatives of professional bodies involved in local authority property management: SCALA, COPROP, LAVA and also the DES. The objectives of the working party were:

(i) To agree a list of core data items for all types of local authority buildings.
(ii) To provide definitions of the data items.
(iii) To agree what other modules are appropriate.
(iv) To recommend a system of corporate maintenance of the data entries.

2. The working party drew on other work on property information systems including that by the DES* and COPROP* and the OECD Programme on Educational Buildings.

INFORMATION SYSTEM PRINCIPLES

3. There are three dimensions which must be recognised by any property information system:

PROPERTY  INFORMATION  SYSTEM

These dimensions or 'sets' are shown in Exhibit A–1. The elements in each set are defined as follows:

A. PROPERTY

Site: An area of land which may have been acquired in one purchase or by aggregating smaller parcels; may be used by several services, or for one or more establishments for a single service e.g. adjacent primary and secondary schools.

Establishment: An individual unit of service delivery e.g. a school or elderly persons’ home.

Building: One of possibly several blocks forming an establishment e.g. a 6th form block.

Floor/Room: Part of a building for which disaggregated information may be required.

B. INFORMATION

Core Data: Fixed or very slow-moving information describing the physical attributes of a property e.g. year and type of construction, gross internal floor area.

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* Property Information Systems and the Educational Building Stock DES Architects and Building Branch Paper No. 10, 1986
* * Property Information Systems Development: A List of Data Items, COPROP, 1986
Intermediate Data: Property attributes which need updating at infrequent intervals (say 5 years) e.g. condition survey results, valuations.

Use Data: Fast-moving information requiring regular updating e.g. expenditure, energy consumption, number of building occupants.

C. SYSTEMS

Central: A corporate system to hold core data and usually maintained centrally. It will provide information that will be common to a number of functional and service modules.

Functional: Normally a separate sub-system or module linked to the central system but for the purposes of a single activity or function e.g. energy monitoring, maintenance history.

Service: A module of interest primarily to an individual service department e.g. name and telephone number of caretaker, current number of children on school roll.

Exhibit A-1

PROPERTY DATA BASE "SETS"

There are three dimensions to a property data base
4. Within the PROPERTY set there is a natural hierarchy whereby a site can ultimately be broken down if required into individual floors or rooms of a building: to a limited extent the same is true of the other two sets. The precise nature of the links between the elements of each set, which define the structure of the database, will reflect the needs and characteristics of the individual authority and service. For example, referring to the exhibit, the core data is likely to be held in a central system and relate to an individual establishment or building. Computer relational database languages are designed for use with complex models such as this, so that it should be possible to collect, store, alter and analyse information at whatever level of aggregation required. The key to any such database is the method used to reference each property with a unique number that enables the aggregation to be made.

5. The structure of the database helps to define responsibility for collecting and maintaining the information. Clearly core data in a central system will need to be the responsibility of central staff in, for example, a property department. On the other hand a sub-system for use solely by a single service (e.g. with details of caretaker's name and address) should be the responsibility of that service alone. Such sub-systems (modules) can be added to the overall system at the discretion of the service department concerned, subject only to the need to conform to the overall structure and property referencing system.

CORE DATA

6. Once the structure has been defined for a given authority it is then possible to build up the database as time and resources allow. Authorities could for example concentrate initially on core data at establishment level in order to carry out property review work as a first priority, and then later develop down to a lower level in each hierarchy.

7. A full list of potentially useful data items is given in the COPROP report referred to above. Even this is not necessarily exhaustive since any system should be flexible enough to incorporate additional information perhaps of unique interest to a given authority or department. However, users must recognise that the bigger the list of items the greater the data input and maintenance task. The following is a list of the basic core data without which it is unlikely any authority could manage its property assets:

1. Site Data
   Terrier reference
   Map grid reference
   Site survey details (notepad information)
   Gross site area
   Ownership/title

2. Establishment Data
   Reference number (e.g. financial code)
   Committee user
   Name of establishment
   Address and telephone number
   Capacity/potential hours of use
   Gross internal area of all buildings

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3. Building Data
   Type of building (main, extension, temporary)
   Year of construction
   Type of construction (traditional, system)
   Gross internal area
   Significant maintenance problems
   Number of storeys
   Type of roof
   Type of heating system
APPENDIX B: OFFICE ACCOMMODATION: SPACE UTILISATION STANDARDS

1. This appendix summarises the results of a review of office accommodation space standards. Since there are no universally applicable standards the figures reproduced here should be applied with caution. Nevertheless they can form a starting point for the development of local standards within an authority.

2. There are two factors to be taken into account when measuring space utilisation in office premises:
   (i) the ratio of usable area to the total building area. This depends on the design of the building (e.g. type of layout – cellular or open plan) and the size and location of corridors, lifts, etc;
   (ii) the usable area allowed per occupant. This is based upon the space required by each occupant to carry out his or her work.

3. Some of the terms which may be used for simple calculations of office utilisation are:
   - **Gross external area**: the total area taken up by a building
   - **Gross internal area**: the total floor area measured inside the external walls
   - **Gross usable area**: the gross internal area less:
     - building core area (pillars, etc)
     - other common areas (plant rooms, lift voids, toilets, etc)
     - primary circulation (through routes, corridors, etc)
   - **Office area**: the gross usable area less:
     - support area, i.e. those areas which support the operation of a substantial part of the organisation (e.g. computer rooms, catering, interview rooms, council chambers, members' rooms, etc)
   - **Workplace area**: the office area less:
     - ancillary area; i.e. those areas required to support more than one workplace (e.g. group filing, group terminals, or group meeting places).

4. Exhibit B–1 shows an example of how these elements could break down for a typical office. The example is drawn from the private sector, and it could be expected to differ from local government in that the support area for the latter is likely to represent a greater proportion, since council chambers and other members' accommodation are unlikely to have their equivalent in other organisations.

BUILDING USE RATIOS

5. The gross usable area to the gross internal area is likely to be within the range 55–70%. Where the ratio is at the lower end of the range, authorities should consider whether improvements are possible, e.g. by redesigning office layouts, moving partitions, and redesigning circulation routes. In the last resort it could pay authorities to consider changing the use of the building or replacing it. Authorities should be aware of how efficient (or inefficient) their office buildings are.
Exhibit B-1

OFFICE ACCOMMODATION –
A BREAKDOWN OF GROSS EXTERNAL AREA

The workplace area is only 35% of the gross external area

<table>
<thead>
<tr>
<th>% OF GROSS EXTERNAL AREA</th>
<th>AREA PER PERSON (m²)</th>
<th>SPACE USE</th>
<th>AREA PER PERSON (m²)</th>
</tr>
</thead>
<tbody>
<tr>
<td>3%</td>
<td>0.5</td>
<td>External walls</td>
<td>20.5</td>
</tr>
<tr>
<td>20%</td>
<td>4.0</td>
<td>Core, structure, plant, etc.</td>
<td>20.0</td>
</tr>
<tr>
<td>14%</td>
<td>3.0</td>
<td>Primary circulation</td>
<td>13.0</td>
</tr>
<tr>
<td>14%</td>
<td>3.0</td>
<td>Support area</td>
<td>10.0</td>
</tr>
<tr>
<td>14%</td>
<td>3.0</td>
<td>Ancillary area</td>
<td>7.0</td>
</tr>
<tr>
<td>35%</td>
<td>7.0</td>
<td>Workplace area (including secondary circulation)</td>
<td></td>
</tr>
<tr>
<td>100%</td>
<td>20.5</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Adapted from “The Premises Audit”, Facilities (February 1986)

WORKPLACE AREAS

6. The space allocated to members of staff individually is called the workplace area, and will include desk areas, seating areas and secondary circulation (i.e. areas to gain access to the desk/chairs). It will also include any filing, meeting space or terminal desk dedicated to the individual. It will not include the area required to support more than one workspace, which is called the ancillary area, and could include group filing, group terminals, or group meeting spaces.

7. Space allocation should normally be determined by function, and not by status, although it has to be recognised that at the most senior levels of management, status will be a contributory factor in space allocation. Table B-1 analyses workspace areas over a range of local authority functions. These figures have been derived from an analysis of standards applied by a number of local authorities, PSA standards applied in the Civil Service, LAMSAC recommended standards, and standards derived by the private sector.
TABLE B-1: WORKPLACE AREAS

<table>
<thead>
<tr>
<th>Function</th>
<th>Area per occupant m²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chief officer</td>
<td>25</td>
</tr>
<tr>
<td>Senior manager (with conference facilities)</td>
<td>15</td>
</tr>
<tr>
<td>Senior manager (not requiring conference facilities)</td>
<td>11</td>
</tr>
<tr>
<td>Technical officer (using drawing board or other equipment)</td>
<td>9</td>
</tr>
<tr>
<td>Administrative officer working with others</td>
<td>7</td>
</tr>
<tr>
<td>Clerical officer</td>
<td>6</td>
</tr>
<tr>
<td>Typist</td>
<td>5</td>
</tr>
</tbody>
</table>

8. Authorities should set space standards for workplace areas per occupant and should regularly audit the space utilisation of their office buildings to assess:
- whether the overall provision of office space matches the number of occupants;
- whether the ratio of gross usable area to gross internal area is satisfactory;
- whether discrepancies in space provision between departments and between grades of staff are identified and corrected.
APPENDIX C: PROPERTY RUNNING COSTS – WORKING PARTY RECOMMENDATIONS

INTRODUCTION

1. This appendix summarises the recommendations of an interprofessional working party on the compilation and presentation of property running costs. The working party consisted of representatives of SCALA, SCT, SCQS, COPROP and the DES. Its remit was to consider the definitions of individual property running costs and the form of presentation that would be most useful to those managing property in local government. The analyses of most of these costs can be readily produced in those authorities using the CIPFA standard form of accounts. A problem may exist where cleaning and caretaking costs are not normally separated, but authorities will in any case need to address this issue to meet the competition requirements of the new Local Government Bill.

2. Property running costs are considered as either core costs or supplementary costs.

Core costs are defined as those property running costs which are of primary importance in the day-to-day management of property, and which should therefore be analysed by individual establishment or building.

Supplementary costs are defined as those property running costs which are of secondary importance in the day-to-day management of property, and which may not always be attributable to individual establishments or buildings.

FINDINGS

Core Costs

3. The core costs are divided into six categories as follows:
   A.1 – Rates
   A.2 – Water and sewerage
   A.3 – Energy
   A.4 – Caretaking, security and cleaning
   A.5 – Building maintenance
   A.6 – External works maintenance (e.g. fencing, paths)

The six categories above have been selected on the basis that they represent discrete operational cost areas in the context of the property management function. They are further divided into sub-categories, which identify more specific cost areas.

Supplementary Costs

4. The supplementary costs are in three main categories as follows:
   B.1 – Rents
   B.2 – Insurance
   B.3 – Alterations and improvement works

These categories are again divided into sub-categories to provide more detailed cost information should it be thought necessary.

5. The reasons for supplementary costs being excluded from core costs, are:

Rents. Loan charges, capital charges etc, for buildings owned by the authority are excluded from core costs and, for this reason, rents, which are the equivalent of capital
charges for buildings occupied but not owned by the authority, are also excluded. (This exclusion will need to be reviewed in the light of future changes in the local authority capital accounting arrangements for property). Income from lettings or rents receivable are also excluded on the same basis as rents payable.

_Insurance Costs_. These are excluded from the core costs because this small element of property running costs is usually centrally controlled, and not always attributable to individual buildings.

_Alterations and Improvement Works_. These are excluded on the grounds that improvement works are outside the scope of building maintenance costs.

**DEFINITIONS**

6. The definition of each cost element is set out in Exhibits C–1 and C–2.

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**Exhibit C-1**

**CORE COSTS**

Definitions of the six core costs

<table>
<thead>
<tr>
<th>CATEGORY</th>
<th>SUB-CATEGORY</th>
<th>DEFINITIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>A.1 RATES</td>
<td>—</td>
<td>The rates payable to the local rating authority by virtue of the General Rate Act.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Excludes water and sewerage charges (see A.2).</td>
</tr>
<tr>
<td>A.2 WATER AND SEWERAGE</td>
<td></td>
<td>Charges paid by meter and/or rateable value to the.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Water Authority.</td>
</tr>
<tr>
<td>A.3 ENERGY</td>
<td>3.1 Gas</td>
<td>Costs related to the provision of heating, cooling, air conditioning, light and power.</td>
</tr>
<tr>
<td></td>
<td>3.2 Oil</td>
<td>Includes LPG.</td>
</tr>
<tr>
<td></td>
<td>3.3 Solid Fuel</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3.4 Electricity</td>
<td></td>
</tr>
<tr>
<td>A.4 CARE-TAKING, SECURITY AND CLEANING</td>
<td>4.1 Caretaking and Security</td>
<td>The cost of staff, equipment and materials required to keep premises in regular use.</td>
</tr>
<tr>
<td></td>
<td>4.2 Cleaning</td>
<td>Caretakers, schoolkeepers, car park attendants, security staff or costs.</td>
</tr>
<tr>
<td></td>
<td>4.2.1 Employed Staff</td>
<td>Cleaning proportion of caretaking staff where cleaning duties are performed by them.</td>
</tr>
<tr>
<td></td>
<td>4.2.2 Equipment and Supplies</td>
<td>Specialist maintenance staff attached to the building.</td>
</tr>
<tr>
<td></td>
<td>4.2.3 Contract Cleaning</td>
<td>Staff, equipment and supplies for internal and external cleaning of buildings, whether in-house or under contract arrangements.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Excludes:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Caretaking proportion of caretaking staff.</td>
</tr>
</tbody>
</table>

(Continued)
<table>
<thead>
<tr>
<th>CATEGORY</th>
<th>SUB-CATEGORY</th>
<th>DEFINITIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>A.5 BUILDING MAIN-</td>
<td></td>
<td>Work arising from the deterioration of buildings, undertaken to retain them at, or help restore them to, an acceptable condition for their function and performance, whether financed from capital or revenue.</td>
</tr>
<tr>
<td>TENANCE</td>
<td></td>
<td><em>Excludes:</em> Improvement work over and above that which is required for normal renewal. Altered work to make the property suitable for a changed purpose. Replacement of whole building. Fire damage reinstatement works. Professional fees and other associated design and management costs.</td>
</tr>
<tr>
<td></td>
<td></td>
<td><em>Includes:</em> Essential fire precaution works. Essential Health and Safety work. Repair and replacement of fixtures and fittings attached to the structure. Plant servicing/replacement maintenance contracts. Specialist maintenance staff attached to individual buildings.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>5.1 Planned Maintenance                                                                                                                  Maintenance work which has been pre-planned.</td>
</tr>
<tr>
<td></td>
<td>5.1.1 External Fabric</td>
<td></td>
</tr>
<tr>
<td></td>
<td>5.1.2 Internal Building</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Fabric</td>
<td></td>
</tr>
<tr>
<td></td>
<td>5.1.3 Internal Decorations</td>
<td></td>
</tr>
<tr>
<td></td>
<td>5.1.4 Fire Precautions and</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Health and Safety Work</td>
<td></td>
</tr>
<tr>
<td></td>
<td>5.1.5 Engineering Services</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>5.1.6 Specialist Maintenance</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Staff</td>
<td></td>
</tr>
<tr>
<td></td>
<td>5.2 Unplanned</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Maintenance</td>
<td></td>
</tr>
<tr>
<td></td>
<td>5.2.1 External Fabric</td>
<td></td>
</tr>
<tr>
<td></td>
<td>5.2.2 Internal Fabric</td>
<td></td>
</tr>
<tr>
<td></td>
<td>5.2.3 Engineering Services</td>
<td></td>
</tr>
<tr>
<td>A.6 EXTERNAL WORKS</td>
<td></td>
<td>Works arising from the deterioration to all areas external to a building, undertaken to retain them at, or help restore them to, an acceptable condition for their function and performance, whether financed from capital or revenue.</td>
</tr>
<tr>
<td>MAIN-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TENANCE</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Definitions of the supplementary costs

<table>
<thead>
<tr>
<th>CATEGORY</th>
<th>SUB-CATEGORY</th>
<th>DEFINITIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>B.1 RENTS</td>
<td>1.1 Expenditure</td>
<td>Payment for the occupation of property not owned by the occupier. Costs of use of property owned by others, exclusive of rates, maintenance, etc., if already included in the Core Costs.</td>
</tr>
<tr>
<td></td>
<td>1.2 Income</td>
<td>Payments received for the use of property by others, including short period lettings.</td>
</tr>
<tr>
<td>B.2 INSURANCE</td>
<td>2.1 Premiums</td>
<td>Premiums paid for property insurance for fire, storm, flood damage etc., perils. Includes: The costs for non-insured elements to damage reinstatement works where appropriate.</td>
</tr>
<tr>
<td></td>
<td>2.2 Unrecovered</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Expenditure</td>
<td></td>
</tr>
<tr>
<td>B.3 ALTERATIONS AND</td>
<td>3.1 Alterations and</td>
<td>Costs arising from building and premises alterations and improvements over and above maintenance or simple renewal. Alterations, improvements, renewal or change of use to buildings and external works above that which is necessary for maintenance under A.5 and A.6. Excludes total replacement of building.</td>
</tr>
<tr>
<td>IMPROVEMENT WORKS</td>
<td>Remodelling Works</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3.2 Demolition Works</td>
<td>Costs of demolishing surplus and/or defective buildings.</td>
</tr>
</tbody>
</table>

Recommendations of a joint working party of SCALA, SCT, SCQS, COPROP and the DES
APPENDIX D: MODEL TO ESTIMATE THE FUTURE EXPENDITURE NEED FOR THE REPLACEMENT OF BUILDING ELEMENTS IN SCHOOLS

INTRODUCTION

1. In its report* on council house maintenance the Commission described the development of a computer model for estimating future expenditure on replacing building elements in dwellings, as the elements reached the end of their lives. The principles of the model are applicable to any stock of buildings, and in this study the model has been further refined and developed to apply to primary and secondary school buildings. It has been used to estimate replacement expenditure over the next 20 years for the national stock of schools in England and Wales.

2. The model can also be adapted to provide estimates of the required expenditure for an individual education authority. This would be useful, in conjunction with the results of a condition survey, as an input to budget allocations. As an example, the second part of the appendix describes the model applied to the school stock of Essex County Council.

THE MODEL AND DATA USED

3. The essential features of the model are:
   – definition of a set of reference buildings that are representative of the types of building currently in use;
   – assumptions on the lives of building elements and the costs of replacing them, in order to develop a replacement expenditure profile for each reference building over its lifetime;
   – use of an age profile of the current stock combined with the replacement expenditure profiles for all reference buildings, to produce a replacement expenditure profile for the whole stock of buildings to any specified year in the future.

4. The availability of data influences strongly the choice of reference buildings and the degree to which the model can be refined to take account of variations among building types. For the housing maintenance study a two-storey semi-detached house was taken as representative of all council dwellings in England and Wales, in view of the relatively homogeneous nature of the housing stock when considered on such a large scale. However, schools exhibit more diversity than council housing, varying both in type and size. The model was therefore adapted to provide estimated expenditure per unit floor area for schools of different age and type. The variation in types is taken into account by defining four reference building types for each of primary and secondary schools, split by age and method of construction:

<table>
<thead>
<tr>
<th>Table D–1: School Age &amp; Construction Profile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type</td>
</tr>
<tr>
<td>-------------------------------</td>
</tr>
<tr>
<td>Traditional construction</td>
</tr>
<tr>
<td>Traditional construction</td>
</tr>
<tr>
<td>Traditional construction</td>
</tr>
<tr>
<td>'System' construction</td>
</tr>
</tbody>
</table>

   NOTE: The age bands are approximate (e.g. some system schools were built in the 1970s) but the model input can easily be adapted to test different assumptions.

5. In developing a replacement expenditure profile for each reference building, it is necessary to allow for the reality that the actual replacement of an element will not necessarily occur exactly at the nominal replacement year. In the absence of other information, and following the precedent of similar research in Holland*, the model assumes that the probability of replacement is "normally" distributed. For example, the life of a softwood window, nominally 30 years, may lie between 15 and 45 years, with a low probability at the extremes, and high probability at about the average life. The resulting profile of replacement expenditure is illustrated in Exhibit D–1 for a set of windows costing £1,200 at each replacement.

Exhibit D-1

**EXPENDITURE PROFILE FOR WINDOWS**

The incidence of replacement is smoothed by normally distributing expenditure around the nominal replacement time of 30, 60 and 90 years

6. The building element cost and life data used in the model is derived from Essex and Cumbria County Councils and other local authority and estimating sources, and from research on building element lives commissioned during the housing maintenance study**. Eleven building elements are used, namely: roof covering, external walls, external windows, floor finishes, electrical wiring, heat source, heating distribution, hot and cold water plumbing, external doors, internal doors, and sanitary appliances and wastes. These elements account for well over half of the total cost of replacing building elements. The lives and costs per square metre are as shown in Table D–2. The model excludes external works such as drainage, grounds or fencing.

7. The profiles for all the elements are aggregated to obtain the profile of replacement expenditure for each reference school over a 160 year life. This period was chosen for the model because it takes the first Victorian schools, assumed to have been built after primary schooling became compulsory in 1871, to the year 2030, about 40 years from now and the

---


<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Primary Cost per sq m</td>
<td>Secondary Cost per sq m</td>
<td>Primary Cost per sq m</td>
<td>Secondary Cost per sq m</td>
</tr>
<tr>
<td>Roof covering</td>
<td>60 90.00 45.00</td>
<td>60 27.00 13.50</td>
<td>20 41.00 21.00</td>
<td>40 26.00 13.50</td>
</tr>
<tr>
<td>External walls</td>
<td>50 1.60 1.00</td>
<td>50 1.30 0.80</td>
<td>30 1.30 0.80</td>
<td>50 1.30 0.80</td>
</tr>
<tr>
<td>Windows</td>
<td>40 4.70 2.80</td>
<td>40 3.90 2.40</td>
<td>40 1.30 0.80</td>
<td>30 1.30 0.80</td>
</tr>
<tr>
<td>Floor finishes</td>
<td>40 5.30 5.30</td>
<td>40 5.30 5.30</td>
<td>15 5.30 5.30</td>
<td>15 5.30 5.30</td>
</tr>
<tr>
<td>Electrical wiring</td>
<td>60 10.00 10.00</td>
<td>60 10.00 10.00</td>
<td>60 10.00 10.00</td>
<td>60 10.00 10.00</td>
</tr>
<tr>
<td>Heating source</td>
<td>40 6.90 5.30</td>
<td>40 6.30 5.00</td>
<td>40 7.10 5.50</td>
<td>40 6.80 4.80</td>
</tr>
<tr>
<td>Heating distribution</td>
<td>60 17.50 17.50</td>
<td>60 17.50 17.50</td>
<td>60 17.50 17.50</td>
<td>60 17.50 17.50</td>
</tr>
<tr>
<td>Hot and cold water</td>
<td>40 2.50 2.00</td>
<td>40 2.50 2.00</td>
<td>40 2.50 2.00</td>
<td>40 2.50 2.00</td>
</tr>
<tr>
<td>External doors</td>
<td>40 1.50 0.40</td>
<td>40 1.30 0.40</td>
<td>40 2.30 0.50</td>
<td>30 2.80 0.50</td>
</tr>
<tr>
<td>Internal doors</td>
<td>40 2.20 1.00</td>
<td>40 2.00 0.90</td>
<td>20 2.00 0.90</td>
<td>15 2.50 1.10</td>
</tr>
<tr>
<td>San. appliances &amp; wastes</td>
<td>25 4.10 2.50</td>
<td>25 3.70 2.40</td>
<td>25 3.70 2.40</td>
<td>25 4.70 2.70</td>
</tr>
</tbody>
</table>

NOTE: The element lifetimes are based on a consensus of professional opinion, but the input to the model could easily be amended to accommodate local experience. The overall forecast of expenditure needs is in any case not very sensitive to individual element lifetimes.
furthest time horizon that is likely to be of interest today. As an example, the profile for an inter-war primary school is shown in Exhibit D–2. The expenditure plotted for each year represents the amount to be spent on replacement of elements on a probabilistic basis. It is not the actual amount that would be spent on any individual building, because actual expenditure will go in steps, with many years of nil cost. However, if the expenditure on all similar buildings in the stock were averaged, this is the sort of pattern that would result. The profile excludes expenditure on planned cyclical maintenance (such as painting and boiler servicing) and jobbing repairs. An indication of the relative cost of the different types of schools in maintenance replacement terms is shown in Table D–3.

**TABLE D–3: MODEL OUTPUT – REPLACEMENT EXPENDITURE FOR DIFFERENT SCHOOL TYPES**
(Average cost per m$^2$ of gross floor area per year over 160 years for the elements included in the model)

<table>
<thead>
<tr>
<th></th>
<th>Primary</th>
<th>Secondary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Traditional 1871–1918</td>
<td>£2.40/m$^2$</td>
<td>1.60</td>
</tr>
<tr>
<td>Traditional 1919–1969</td>
<td>1.50</td>
<td>1.20</td>
</tr>
<tr>
<td>Traditional 1970–1985</td>
<td>2.00</td>
<td>1.40</td>
</tr>
<tr>
<td>System 1946–1969</td>
<td>3.40</td>
<td>2.10</td>
</tr>
</tbody>
</table>

**Exhibit D-2**

**EXPENDITURE PROFILE FOR ALL ELEMENTS**
(Interwar primary school)

The model's forecast of expenditure for all elements is also smoothed

Source: Computer model output

8. The age and area data for the model is derived from DES sources* & * * updated by more recent statistics from the department. There are no definitive national figures for the area of school buildings constructed over the years, but by using the data on places and expenditure (Table 6 and Exhibit 21 in the main report), together with the other DES data,

* *The Story of Post-war School Building, Ministry of Education, Pamphlet No 33, 1957.
it is possible to define a breakdown of schools built by age and floor area. The profile for England and Wales is shown in Exhibit D–3.

Exhibit D–3

APPROXIMATE AGE PROFILE OF SCHOOL STOCK
(England and Wales)

The model can be used to test assumptions about the age mix of system and traditionally built schools

Source: Department of Education and Science

9. There is only limited data on the number of system-built schools and the proportions of different types of system (steel, timber frame and concrete); therefore a further assumption is that 50% of the schools of the 1946–1969 era were system schools and all schools from 1970 were traditionally built. Further research would probably enable this estimate to be refined. (The robustness of the model to this assumption was indicated by sensitivity analysis, which showed that even if all schools in this period were system-built, the replacement need in the 20-year period 1988–2007 would be no more than 20% higher.)

10. The last stage in the modelling is to aggregate the forecast of expenditure for all types of buildings, in order to obtain the total replacement need for the stock. Adjustments can be made at this stage for future increases or decreases in the stock. For the national model, the DES targets for closures between 1985 and 1991 were used*, 6.6% for primary and 18.3% for secondary schools. These are assumed to be spread evenly across schools of all ages. Although authorities will clearly try to close older schools, they may sometimes be prevented by educational or geographical constraints.

MODEL RESULTS

11. Total element replacement expenditure produced by the model is shown in Exhibit D–4, for the 20-year period from 1988. The trend is upwards from 1991 and will have increased by 38% at the end of the period. The older schools, among which primary schools predominate, have the greater proportion of replacement need. The required expenditure predicted by the model is £80m currently, rising to £110m by the end of the period. The current requirement may be compared with a recent estimate of actual replacement

* Falling Rolls and Size of Schools; Report of a joint Working Group of the DES and Local Authority Associations, Department of Education and Science, 1986.
Exhibit D-4

REPLACEMENT NEED: ALL SCHOOL TYPES

Expenditure on the building elements included in the model will need to rise by 38% over the next twenty years

![Graph showing total expenditure per year from 1990 to 2007.]

Source: Computer model output

Expenditure between £70m and £100m. Given that the model does not take all building elements into account, and that it assumes no existing backlog, it is likely that present expenditure on replacement is considerably less than what is needed.

12. There are a number of factors which it is not possible to take into account in a relatively simple model such as this; for example: the wide diversity of building types; obsolescence and the requirement for replacement of elements in upgrading programmes rather than due to physical failure; the onset of unpredictable replacement such as that arising from asbestos or high alumina concrete failures; or the consequences of previous inadequate maintenance. Another factor that has to be borne in mind is the level of specification for replacement elements; certain choices always exist and others arise from technical progress. It must be nearly certain for example, that every felt roof replaced within the last ten years would have high performance felt rather than the technically inferior original material. Windows cannot be similarly regarded; some authorities continue to replace with softwood. In other words, there are choices within a price range for replacement of elements; some authorities will tend towards the highest specification, others towards the lower end of the range. Inputs used in the model described here are the improved, rather than the original specification, where such choices exist.

13. None of this should be allowed to undermine the value of the model as a tool of management thinking in relation to planned maintenance. Authorities ought to produce the information necessary for this type of model so that they can consider future changes in maintenance need in a structured manner. Good property management should be able to detect when more or less resources will be required, but will seek to avoid large fluctuations in maintenance workload, because of the staff and financial management problems that will entail. The use of such a model increases the general level of awareness of the problems which may be awaiting an authority not too far into the future, and it may help bridge the credibility gap that sometimes exists when large sums of money are requested, but the buildings are patently not yet falling apart. However, no-one should imagine that curves resulting from the model give an accurate forecast of the actual amount that will have to be
spent in the next two decades; much will depend on the present state of the stock and the
maintenance work hitherto. In authorities where a backlog has developed, this will blur the
estimates for future replacement based solely on age. Nonetheless, the model does give an
opportunity for order-of-magnitude estimates of future replacement expenditure, and can be
used to reinforce the arguments of surveyors and others who have been making a case for the
right amount to be spent on replacement when it is due. It underlines the fundamental
point, that all who have responsibility for the preservation of a stock of buildings need to
plan properly for its maintenance.

APPLICATION OF THE MODEL

14. The profile of an individual authority's primary and secondary school building stock
may be quite different from the national profile in terms of age, design and construction
method. While the results described above are useful in the national context the model can
provide more practical help to an individual authority when applied to its own local
circumstances. To illustrate this (and to test the sensitivity of the model to changes in input
data assumptions) the model was adapted to produce estimates of required maintenance
expenditure for Essex County Council, who provided assistance with the model develop-
ment and were interested in its potential.

15. The model can be adapted to accept any combination of school age and type
provided that data on element life and replacement cost is available. The elements to be
included can themselves similarly be redefined. For Essex the following profile was felt to be
most appropriate (again for both primary and secondary schools separately):

<table>
<thead>
<tr>
<th>TABLE EM: SCHOOL AGE AND CONSTRUCTION PROFILE (ESSEX)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type</td>
</tr>
<tr>
<td>-----------------------</td>
</tr>
<tr>
<td>Traditional construction</td>
</tr>
<tr>
<td>Traditional construction</td>
</tr>
<tr>
<td>Traditional construction</td>
</tr>
<tr>
<td>Traditional construction</td>
</tr>
<tr>
<td>System (timber– framed)</td>
</tr>
</tbody>
</table>

The list of elements was simplified (to reflect the data that was readily available) by
deleting the last four from Table D–2, combining external walls and windows, and dividing
'heat source' into space heating and hot water heating.

16. Table D–5 summarises, for Essex, the model results (as for the national model in
Table D–3).

<table>
<thead>
<tr>
<th>TABLE D–5: MODEL OUTPUT–ELEMENT REPLACEMENT EXPENDITURE (ESSEX)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Cost per m² of gross floor area per year)</td>
</tr>
<tr>
<td>Type</td>
</tr>
<tr>
<td>-----------------------</td>
</tr>
<tr>
<td>Traditional pre 1910</td>
</tr>
<tr>
<td>Traditional 1910 – 1945</td>
</tr>
<tr>
<td>Traditional 1970 – 1979</td>
</tr>
<tr>
<td>Traditional 1980 – 1987</td>
</tr>
<tr>
<td>System (timber) 1946 – 1959</td>
</tr>
<tr>
<td>System (steel) 1960 – 1969</td>
</tr>
</tbody>
</table>
Overall, the figures are lower than the national model because of the reduced number of elements included. The relative expense of system-built schools at this stage in their life cycle can be seen in the Essex model: on average over the period, 74% of the replacement cost is attributed to system schools, but they constitute only 56% of the floor area in the county.

17. As well as checking the sensitivity of the national model to the effects of the school closure proposals and the proportion of system-built schools, it was tested, with the Essex data, for changes in the assumed lives of elements. For each of the school types, the expected lives of the three or four most significant elements were varied by +25%. This mainly affected the elements with 60-year lives: roof covering for traditional buildings, electrical wiring and heating distribution for all types, and additionally external window/walling for the system schools.

18. With the estimated lives increased by 25%, replacement need is reduced by on average 17% between the years 1988 and 2007. The general trend is broadly similar to the original forecast, but with the peaks and troughs occurring about five years later. When the lives are decreased by 25%, replacement need is increased by on average 40% between the years 1988 and 2007. The model is therefore fairly robust to increases in lives, but more sensitive to reductions in the longer lives: changes to shorter lives would not have such a marked effect. The practical implication is that the future maintenance estimates based on a model of this nature would be severely affected if over-optimistic assumptions on the longer lives were used as inputs. Conversely if replacement is postponed, the savings are not very great when viewed over the long term.

19. The school types used in the two applications described here will not necessarily apply to all authorities, but, as described, the model can be adapted to suit any local circumstances. A simplified version of the model incorporating the criteria used in the national model has been made available to the Commission's auditors. This will assist authorities by giving an approximate indication of future replacement need based on the age profile of each authority's school building stock. Authorities which wish to refine the model further to suit their particular circumstances, and to gauge the effect of different assumptions on future maintenance need should discuss the possibility of doing so with their auditors.
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