

LOCAL AUTHORITY ASSET OWNERSHIP - THE LAST TABOO



“Local authorities are facing their biggest financial challenge for generations, yet the vast majority of town halls consider axing lolly-pop ladies before contemplating alternative asset ownership models. This is surprising, considering the opportunities to unlock the value from their estates is significant.”

Robert Van-Loo

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Executive Summary

- Some councils are rapidly falling short of their savings forecasts
- Minor delays can have a major impact with the run rate increasing dramatically
- The ownership of built assets is one of the last taboos in local government
- Yet there is little rationale for being wedded to corporate or operational property
- New innovative models should be considered to help protect frontline services.

Some councils have responded to the tough 25% budget cuts by reducing headcount, salami slicing departmental service budgets, axing non-essential capital programmes and have even contemplated unpalatable decisions such as terminating much cherished frontline services. Libraries, leisure facilities, local community support programmes and even lollypop ladies have all, unfortunately, been considered and in some instances services have been axed.

Despite these cost cutting measures many authorities are still falling considerably short of their savings targets and are struggling to find the solutions to meet their anticipated forecasts. Minor delays have a significant impact. For example, if a council has an identified shortfall of £20 million then the required run rate for savings increases by £1.66 million per month for each month that this target is not addressed. The need for pace is obvious.

Many are hoping to plug the funding gap through large scale asset disposals, but in a volatile marketplace, they are likely to struggle to get the rapid returns they require. This disposal strategy is likely to be further compromised if numerous authorities were to “dump” their corporate property assets onto the market at the same time.

Not only would this dilute the intrinsic values hoped for but encourage developers and speculators to “cherry pick” the best and most sought-after assets leaving the less desirable assets extremely difficult to move.

The last taboo

The ownership of built assets is still one of the last areas for fundamental review and even though many councils point to the fact that they have rationalised their assets, sold off surplus stock, and have improved utilisation of office space, there is a general reluctance to consider wholesale transfer of owned assets into the private sector.

The question is why do so many councils insist on owning the majority of their property portfolio? Perhaps the answer is partly historic, partly cultural and partly a lack of knowledge of the alternative operating models available.

There is little commercial rationale for being wedded to corporate or operational property. Take the example of private sector businesses such as hotel and leisure chains which run a property operator model that enables them to operate successfully from leased or landlord managed buildings. Of course there are examples of this in local government, such as in Southwark, Barnet, Camden and Tower Hamlets, but there has not been wider acceptance.

Property is the largest financial asset and second highest cost after people resources. Collectively it is estimated that local government is sitting on £250 billion of owned assets. Smarter solutions surely should be considered, as there is massive potential.

There are, for example, private investors with access to huge financial leverage looking for new opportunities to invest their capital, where they can guarantee long-term returns. The models for this started with Mapeley and Trillium who acquired estates such as the Inland Revenue and the BBC, and of course Croydon Council has entered into a Local Asset Backed Vehicle. Now the deals can be simpler, without the need to necessarily lock in serviced office commitments.

The approach doesn't even have to include the whole estate, there can be a focus on specific assets. For example, some private sector organisations are forming partnerships with councils to jointly develop specific sites and share the profits realised. Councils are contributing the land into the transaction and by doing so are able to speed up the process and gain a share of the development profit.

Room for improvement

There is still considerable room for improvement with the real potential to generate cash to offset the effects of the latest budget cuts. Over the past 12 years there has been numerous government sponsored asset best practice publications from Hot Property through to the Quirk Report and most recently Westminster Sustainable Business Forum's two Learner Greener reports, each urging local authorities to maximise the value of their estates.

Despite calls for robust action there is still a reluctance to drive real revolution around ownership models in Town Halls. However, the need for effective, rapid solutions will only intensify over the remaining years of this Coalition Government. Councils will need to be more innovative to manage their shrinking financial allocations at a time when many are saying that demographic population increases and rising local community needs and expectations are putting unbearable pressure on frontline services.

The government remains reluctant to allow local authorities to raise income through increased local taxation, except for their very limited TIF, CIL and New Homes Bonus plans, and they have urged councils to use up their contingency funds to support current revenue expenditure.

Something will surely have to give soon; but one wonders how long it will take for the imperatives of the economic storm in local government to force a change in attitudes to unlock the intrinsic value tied up in their estates...

To discuss the possible options further, contact:

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