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Estate of the nation, by Andy Pack

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Councils can use their land and buildings to significantly boost their income. Andy Pack of GVA Grimley discusses how to do this in the first of a series of sponsored columns

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How can a council achieve real physical change at the same time as making unprecedented cuts? How do you facilitate regeneration when grants are shrinking?

One area to look for answers to these questions is in an authority's assets. The recent establishment of the Government Property Unit has put the use of the public sector's significant asset base into focus. The principle of 'use it or lose it' is being felt across the public sector.

Local government is being asked to address this itself – though with a watchful eye from Whitehall. This not only means ensuring its civic accommodation is being efficiently used but also that the substantial assets on its balance sheet are used effectively.

Authorities need to examine opportunities to use their asset base not only to make savings but also to regenerate the area.

Rationalisation and management reviews have already been a focus for authorities trying to reduce buildings' running and maintenance costs. But once excess assets are identified and freed up, what do councils do with their surplus estate?

Traditionally the answer has been to sell them, but the depressed market – coupled with the history of the private sector keeping most of the profits – has made authorities think again. An alternative approach is to recognise the estate's value and use it for investment.

Many authorities will not have the capital or the expertise to do this directly. So how should they proceed?

An approach in the private sector, where one party has assets and the other has capital, is to form a joint venture vehicle. This can draw on the skills, experience and resources of each party. It can also use off-balance sheet debt through a ring-fenced external vehicle.

Private developers are constantly seeking that Holy Grail opportunity – quality land, further sites in the pipeline and quick development through strong planning expertise. Local authorities should therefore see themselves as the perfect development partner.

They have a unique set of skills and powers to offer, including: access to land and site consolidation; planning expertise and compulsory purchase powers; long-term commitment; regeneration experience;

commitment to quality; knowledge and understanding of local needs; and relationships with the local supply chain and other providers.

Joint ventures can be used to develop a single site or a programme of sites; but there is a need for scale as the costs can be recovered only through significant income.

The London Borough of Croydon signed a JV with John Laing in 2008 to provide regeneration projects. These incorporated a new civic hub, mixed-use development in the town centre and new housing. The joint venture closed in March 2010 and is now ‘on site’; evidence that this model can work even in the current economic climate.

But how does an authority know whether it has the assets to pursue this approach? And, as important, how does it guard its interests in doing so?

The main criterion is that it must have an asset base that has development potential – either for redevelopment, such as in Croydon, or to maximise returns from its commercial estate. Aylesbury Vale Council entered into a joint venture for this purpose, investing its entire estate, including a commercial portfolio that had significant potential. The council will benefit from more capital and continuing revenue.

To guard against carrying the whole risk, an authority must be savvy in negotiations and look out for developers’ ‘tricks of the trade’. These might include deflating the land value that transfers to the vehicle, thus minimising the authority’s equity, and fee-stripping to minimise profits to the partners.

Starting a joint venture requires a clear agreement of objectives that protect the authority’s interests while providing enough incentive to attract the private sector. Arrangements for governance, rates of return, funding of costs and a development programme are essential. They must also ensure the private sector is taking real risk so that it has an incentive to succeed.

Local government is in a unique and privileged position, with cuts providing an incentive and impetus to look at things afresh. Cost reductions can save money but the biggest asset to the public sector is the strength of its balance sheet.

By investing its assets intelligently and leveraging private sector finance and expertise, it can help advance its ‘place-shaping’ role while maximising returns and reducing the cost of running excess estate.

Andy Pack is director of GVA Grimley Financial Consulting