

Ten Principles for Creating Value from Local Government Property



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Cover photograph: Greenwich Council's proposed civic office and library in Woolwich. See page 8. (HLM Architects)

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Introduction

Local authorities in the United Kingdom are under pressure to deliver more with less. The expectations of both citizens and central government continue to rise—and yet, as in the private sector, councils are still expected to achieve major economies in managing resources, both financial and human.

Ten Principles for Creating Value from Local Government Property is intended to prompt a debate among local authority decision makers and commercial and property principals as to the contribution that local authority property can make to the delivery of modern local government services. According to the Investment Property Forum, local authorities are responsible for around £130 billion of real estate. Arguably, this asset base represents the largest untapped resource in local government. Leaving aside schools and social housing, which constitute an estimated 80 percent of the total local government building stock (and for which authorities perform an essentially custodian role), authorities can make real choices about the remaining 20 percent, or £26 billion of the aggregate portfolio.

This *Ten Principles* publication, the first of a new series on local authority property, focuses on local authorities' operational estates: the buildings from which they co-ordinate and deliver public services. Rethinking the need to hold and occupy extensive property estates offers local authorities not only the opportunity to access capital, but also, potentially, a basis for fundamentally changing the way local government does business and engages with its staff, stakeholders, and citizens. Given the growing pressure on local government for higher-quality services at lower cost, there is merit in exploring whether property assets can increase efficiency and productivity. While performance and process improvement through active management of existing estates will continue to deliver value, this publication considers whether large-scale portfolio transactions—which are only just starting to emerge in local government—can help achieve a fundamental change in creating value.

Creating Value from Local Government Property is based on a two-day workshop and numerous case studies. The focus is on best practices for creating value from local government property in the U.K., which is the source of most of the examples. Nevertheless, many of the messages will resonate across continental Europe. The publication takes as its backdrop a number of major themes, such as the interaction between public and private sector partners to achieve an authority's goals, and the use of technology to help achieve operational efficiencies and greater productivity.

This is an extremely exciting time for local government to meet the goals set by the U.K. central government and by the expectations of citizens. Many local authorities are actively considering the contribution made by their property interests to wider organisational objectives. This is an ideal opportunity to share the experiences of others in striving towards these goals.

The authors of this publication wish to thank those public bodies that have facilitated an open and frank discussion of the issues by offering case studies reviewing their work to date. In addition, ULI would like to thank Karen Sieracki for initiating and supporting this process and Deloitte for its generous support.

Ten Principles for Creating Value from Local Government Property

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1 Rock the Boat

The property estates of most local authorities in the U.K. are a historical accident—a legacy of piecemeal acquisitions, boundary changes, and mergers. At best, this creates a serendipitous marriage of form and function: in many towns and cities, the town hall is a recognisable icon of democracy. At worst, however, portfolios are remote, inaccessible to service users, in poor condition, unfit for their purpose, and project an image of a patrician, bureaucratic model of local government—an image many councils are striving to change.

The way councils do business, and the services they provide, have been and will continue to be in a state of change. If change programmes are to deliver the required benefits, the infrastructure to support changing models of service delivery, citizen expectations, and advances in technology also needs to adapt. Many organisations, however—both public sector and private—find that their ability to change their property commitments lags behind their need to evolve operationally. All too often, property constrains rather than enables changing working practices.

In a move to create a property portfolio that will deliver effective, modern government for the 21st century, local authorities need to be bold. The key questions for them to ask are: What type of organisation do we want to be? How can we use property to catalyse and support that goal?

The starting point must be to recognise property as an organisational asset, fully integrated into the corporate strategy. The recent requirement for U.K. local authorities to prepare annual asset management plans (AMPs) has helped raise the profile of property. To date, these plans have generally been better at diagnosing liabilities than at identifying funded solutions. Nevertheless, AMPs have helped to create a climate where local authorities can start to challenge fundamental assumptions about their business and how it impacts their property needs.

The Prudential Regime introduced by the Local Government Act 2004 allows authorities far greater freedom to determine an affordable level of capital investment. In addition, many authorities carry a significant opportunity cost in under-utilised assets, where latent value might be realised to fund change programmes. With a broader range of financing options available, local authorities are in a stronger position to challenge the status quo and to think strategically about what role property will play in the achievement of service goals.

At a strategic level, every authority is likely to benefit from questioning the contribution that property makes to the business. Such challenges need to go beyond day-to-day issues affecting specific properties: the boat needs to be rocked.



Case Study: Northern Ireland Civil Service

Northern Island Civil Service (NICS), which is responsible for delivering a wide range of public services, employs a staff of 29,000 across 11 departments. The Workplace 2010 project aims to increase efficiency and to redirect resources to priority frontline public services through a major reform of the NICS estate.

The project involves the transfer of title of some 80 buildings with a total area of approximately 280,000 square

metres. A number of these buildings will be refurbished and reconfigured, with the aim of enhancing the workspace and significantly rationalising the NICS office estate into a smaller and more efficient portfolio.

NICS plans to use the transformation of its estate to catalyse and support wider organisational change. Workplace 2010 is designed to be an enabling project that will change how people work and increase their productivity. The expected benefits include the following:

- The creation of flexible, open working space that can deal with churn;

- Recognition of the importance of the workplace in attracting and retaining the right people;
- Ensuring that the estate will be adequately maintained, so that the workplace remains an attractive and operationally effective environment;
- Dealing with changing patterns of service delivery: finding as flexible a solution as is affordable;
- Achieving an organisational understanding of the real cost of property occupation—including the introduction of hard charging, so that those who use, pay.

■ Why do we occupy the buildings we do? What purpose, and whom, does our property serve?

■ How connected are we with other public service agencies? How easy is it for citizens to access services and public officers?

■ If our core business is service delivery, why do we own so much property? Is control of property more important than ownership?

■ What financial and community value do we get from the “family silver”? Could we get better value through different ways of leasing or owning property?

Questioning fixed assumptions can be a difficult and even emotional process. Nevertheless, the exercise has value even when the questions raised do not result in change. For example, when Surrey County Council looked at the plans for its new council headquarters, it questioned whether the building needed a council chamber. Hiring commercial space for the few times when the full council meets offered a cost-effective alternative. The council’s review acknowledged the viability of this alternative, but concluded that an integrated council chamber would both reflect the headquarters’ democratic function and raise its status as a public building. Despite the result, all stakeholders valued the opportunity to debate and validate the function of a modern, fit-for-purpose council headquarters.

Rocking the boat can lead to real change. The Northern Ireland Civil Service, for example, is using a strategic review of its property portfolio to catalyse and support an organisational transformation programme (see case study).

It is not just the role of the public sector to rock the boat. When private sector partners are involved from the beginning of the projects, they can help test and validate their clients’ aspirations. It can often be helpful when an outside partner, coming in with a fresh set of eyes, explains how the market can help deliver property solutions that meet public authorities’ operational requirements.

2

Find Your Champions

Any complex change programme needs strong leadership to align and reconcile competing interests. A champion is vital to navigate a project through these challenges, provide direction and leadership, maintain focus, and allow the project team to concentrate on delivery. Property investment decisions, particularly those based on portfolio transformation, do not fit easily within the timescale of electoral cycles. Effective sponsorship and governance can provide the focus needed to bring an initiative to the top of a council's priorities—and keep it there.

The champion needs the authority to reach out to the full spectrum of stakeholders, including politicians, staff, and the community. The role of the champion is to communicate the vision, conveying to all parties a clear sense of the project's benefits. In a political environment, it is important for the champion to build consensus, or at least to articulate the benefits of change, so as to foster cross-party support and appropriately deal with political challenges. A significant property transformation has the potential to deliver both financial and operational benefits. The champion needs to convey this positive message to all stakeholders.

Without a champion who can drive the programme and make tough decisions, the chances of success are remote. The ambitious Project PRIME scheme (see page 9) gained cross-party support by promoting the long-term benefits of cost savings and occupational flexibility. A 1999 National Audit Office report highlighted the importance of the deal's champions when it noted that the department had "pursued PRIME as a major corporate project, providing the project team with effective support from top management and ensuring that a comprehensive deal involving all properties and 13 services was pursued." A champion will not only align internal interests around a shared vision, but will also help assure the market that a project has sufficient maturity and political buy-in to justify investing time and money in the procurement process.

Case Study: Birmingham City Centre

If you need a good example of making a splash, look no further than Birmingham's celebrated retail renaissance. The phased redevelopment of 40 acres of Birmingham's city centre has revived its jaded retail sector and released the heart of the city from the grip of 1960s concrete monstrosities.

The Birmingham Alliance—a partnership between Hammerson, Henderson Global Investors, and Land Securities—has completed two major phases of the development. The 17,186-square-metre Martineau Place opened in 2001, and the £500 million Bullring opened in 2003, providing more than 110,000 square metres of retail space in 140 shops. Martineau Galleries, the final phase, is now seeking planning consent for a 266,000-square-metre mixed-use development in the east of the city centre.

The big splash from this project has been economic: the £800 million investment in the economy created 8,000 jobs. In its first year, the Bullring received 36.5 million visitors, 6.5 million more than expected. The impact has extended beyond retail: office developers are now looking at sites in Birmingham, in order to be close to the Bullring.

The development has also raised the bar for cities embarking on bold and contemporary design initiatives; the curvaceous silver Selfridges building, designed by Future Systems, quickly became an internationally recognisable icon.

Birmingham Council's desire for a dramatic solution helped provide the vision for this major redevelopment. Former council leader Sir Albert Bore is also credited with playing a role in bringing together the three developers to work together. Initially, Hammerson and a partnership between Land Securities

and Henderson were working on two competing schemes for the city centre.

Plaudits for the scheme include the 2004 Urban Land Institute Award for Excellence. It was the first time the award was given to an entire city.



There are good examples of political drive resulting in innovative and ambitious regeneration schemes. Pasqual Maragall, former mayor of Barcelona, is well known for the vision and leadership that led to the successful regeneration of the city following its hosting of the 1992 Olympics. Similar leadership was displayed by Birmingham City Council in promoting an £800 million redevelopment in the heart of the city (see case study).

3 Capture the Vision and Define the Need

Local priorities, national trends, and evolving policy direction all impact the way in which authorities organise themselves to optimise service delivery. The speed and extent of change in the public sector require a strategic response—a vision based on seizing opportunities and meeting defined needs. The vision will be shaped by changes in the way local authorities and other public agencies deliver services. The Children’s Act, for example is predicated on a co-operative model of social care and health care delivery for children.

All projects, plans, and management strategies need to start with a vision that captures and reflects how an authority can best respond to the needs of its citizens. Involving key stakeholders, citizens, and business partners is an essential part of the process. Property should be a relevant factor in shaping the vision and defining the need. Its value and cost to most authorities, and its impact on the way in which services are provided, are simply too significant to ignore.

No two authorities are alike in terms of their political priorities, preferred operational models, or the relative fit of their portfolio to their needs. Thus, the vision of how property can best support the business will naturally vary according to local circumstances. Authorities should test their vision through a business case to demonstrate that it is deliverable, affordable, and likely to create value.

Some of the factors to consider in capturing the vision include the following:

- Do emerging working practices require a different space configuration? For example, can the existing portfolio support separate front- and back-office operations? Do all staff need desks, or is there potential for hot desking or shared space?
- What is the most appropriate balance of technology and property, or “kit versus brick”? Do buildings support the use of technology? Can the application of technology reduce the demand for space?
- Is there cross-boundary support for co-operation across public service agencies? What impact does legislation (such as the Children’s Act, and closer integration of social care and health) have on the co-location of staff?
- What are the core outcomes that the vision must deliver? Other public sector portfolio deals have delivered capital receipts, revenue savings, increased flexibility, and better-quality facilities. What are our priorities?

Case Study: Surrey County Council

Surrey County Council knew that in order to live up to its mission to transform itself into a “flexible, modern council for the 21st century,” its property portfolio would have to change. In keeping with its goal, the council wanted to optimise operational efficiency and customer service. It also wanted its building to demonstrate democratic engagement by providing better public access to higher quality facilities.

The council began implementing changes to its portfolio in 1997. At that time, it had around 90 mainly freehold offices, which were of poor quality and failed to match location and need. By 2001, the council had halved the number of offices and was using new facilities, procured mostly on short leases; it had also improved workspace efficiency. By 2006, the administrative portfolio had been reduced to 14 offices, and plans to outsource the council’s entire accommodation requirements were well underway.

All buildings in the new portfolio have hot desking and touchdown areas for staff with laptops, increasing efficiency. Focused environmental design and energy efficiency have reduced costs

and improved sustainability. The council has reduced the person-to-desk ratio from 5:5 to 3.5:5. This shift has been supported by changes in the use of information technology, including the provision of more laptops and the distribution of handheld computers to both social workers and senior staff. The transition management team is supporting staff members throughout these changes, encouraging them to take ownership of their new offices and to adapt to flexible working practices.

The council says that its early groundwork and attention to its business plan have paid off:

- It defined its requirements based on the optimal service delivery model, then developed the property solution around it.
- During the early stages of rethinking its property requirements, the council challenged the assumptions of its operating model.
- The council designed a procurement process that attracted considerable market interest.

A decision-making champion helped steer the project through the initial decision making phase and the subsequent



procurement process, and also helped to ensure the availability of sufficient resources to deliver the project. The champion will continue in this role throughout the transition management phase.

These factors need to be built into a business case that is realistic, affordable, and deliverable. Any solution will need to be attractive both to stakeholders and to the market, and designed in such a way that a council can be confident of its ability to build and sustain competitive tension. Throughout the business planning process, tough decisions should be taken upfront to define the project scope and set attainable goals using available resources. Managing expectations will be critical to ensuring that additional work outside a realistic business case is not created for its own sake, and that scope drift—deviation from the agreed specification—is actively resisted by all parties.

4 Optimise Commercial Leverage

The covenant strength of local government creates real commercial leverage. In many local economies, a council would be viewed as an anchor tenant, and many authorities have successfully negotiated competitive rents on individual buildings to reflect this. For a variety of reasons, however, it has been less common for councils to assert their buying power at a portfolio level. Those public bodies that have taken portfolio deals to market have been able to use their credit strength—in addition to the value of their underlying assets—to raise and structure efficient financing.

The advent of the Prudential Code means that authorities can design capital investment programmes that meet the needs of their communities while being affordable, prudent, and sustainable. The result has been additional flexibility:



authorities can now engage with their capital investment agenda and balance their capital and revenue commitments more freely. This comes at a time when there is significant pent-up demand from the private property market for local authority portfolio assets. For example, Surrey County Council attracted

Case Study: Project PRIME

Project PRIME, the Private Sector Resource Initiative for the Management of the Estate, was the first total property outsourcing deal in the United Kingdom. In the spring of 1998, the Department of Social Security (now the Department for Works and Pensions) transferred the ownership and management of the majority of its estate to a consortium led by Trillium and U.S. investment bank Goldman Sachs. Trillium is now a fully owned subsidiary of the U.K. property company Land Securities Trillium. The department retained the rights to occupy the 1.6-million-square-metre estate for 20 years, with Land Securities Trillium providing full property and facilities management services.

At the time, it was the largest Private Finance Initiative deal and the largest property transaction to close in the U.K., and it has spawned similar outsourcing deals in both the public and corporate

sectors. It delivered an upfront capital receipt of £250 million, produced whole-life revenue savings of 22 percent, delivered contractually committed property-cost savings, and enabled the department to vacate up to one-third of the estate with no penalty.

These benefits were delivered against a highly challenging background. The Department of Social Security had traditionally struggled to align its property commitments to its needs, its negotiating leverage with individual landlords was weak, it was unable to generate the capital to invest in spend-to-save refurbishment, and its service provision was both expensive and of poor quality.

The project succeeded in stimulating the market to offer a more flexible response. The department was able to optimise its commercial leverage by consolidating all its buying power into a single contract. The successful contractor was able to create—and share—value from its ability to (1) exploit the joining of land interests and development opportunities; (2)

implement spend-to-save and invest-to-divest schemes; and (3) capture economies of scale. The contractor was also given the incentive to generate additional efficiencies that would be shared by the two parties.



over 30 expressions of interest when it launched the procurement of its office project. The value of the local government estate—assessed by the Investment Property Forum at some £130 billion (out of £600 billion total in the U.K. property market)—makes the sector very significant.

Local authorities should recognise their true potential as owners, customers, and partners. An authority is often one of the biggest landowners in town, and often holds key sites and properties. In all transactions with the private sector—be they regeneration projects or property deals to improve service delivery—it should follow that councils will naturally attract the best private sector partners. Principles 7 and 8 consider how local authorities can get the most from their engagement with the private sector.

5 Listen, Engage, and Act

Citizen expectations of public services are changing fast. In thinking about the role of property in supporting service delivery, local authorities should carefully consider better ways to promote civic engagement. Consultation should start early, to create an informed understanding of customer expectations and to balance service delivery imperatives with user perspectives.

Many authorities are adopting new models of customer interaction based on technology such as the telephone and Internet. Where customers require physical access to public offices, the community can help shape the property requirement by communicating to local authorities what form of access—local or centralised—works best. For example, user kiosks and satellite offices have not proved popular with the public, since they tend to require citizens to visit multiple offices. However, where a neighbourhood office can incorporate real decision-making authority, public support will grow.

This process of community engagement is another key role for the project champion. However, any consultation process must have a clear timeline, and the champion must have the leadership skills to make bold decisions if necessary. In many cases, proposals may be unpopular with local stakeholders, so consultation with citizens may be as much an educational process as a listening process. From a practical viewpoint, community involvement, managed effectively, will help offset opposition to change. Managed badly or without effective leadership, it can cause delays, compromise solutions, or threaten the viability of the project.



Case Study: The Use of Kiosks

Finding ways for citizens to access public services at a time and in a way that suits the individual, rather than the institution, has vexed the public sector for some time. As citizens become more discerning consumers, with higher standards, they expect greater responsiveness and more focus on the needs of the individual.

The efforts of institutions to respond to these changes led to a number of false starts. One underlying reason was the lack of an enabling mechanism: it was not until e-government began to take hold, in the early 2000s, that efforts to

break down the barriers between institution and citizen began to show progress. Arguably, however, e-government created as many problems as it solved: while it allowed for more responsive public services, concern arose about access and the possibility of exclusion.

In the late 1980s and early 1990s, as customer care came to the forefront of public sector service delivery, kiosks and one-stop shops became familiar places in councils, but failed because the technology platforms did not exist to support them properly. Recently, however, one council in Northern England attempted to resurrect the approach (though it was not alone in doing so). But the kiosks re-introduced by this predominantly rural

council, whilst adopting new technologies and multi-access channels, mistook the extent of shifts in society. The kiosks, which were open for set hours (though not a normal 9-to-5 day), were staffed by council officers who were able to provide some assistance, but not answer or manage all public enquiries. Although they were initially successful, the kiosks quickly lost public favour when it became apparent that the staff rarely had the ability to fully resolve problems, and frequently just added an extra step to the process of obtaining service. The kiosks were soon closed. Multi-access customer channels are both important and demanded, but councils need to practice greater flexibility in the way that they introduce this resource.

6 Make It Happen

Ultimately, the keys to delivery are adequate staffing and funding for the project, a coherent procurement strategy, effective programme management, and adherence to the project scope and specifications. Making a property plan happen requires discipline, resourcefulness, and commitment.

A sound business plan is essential. The business case needs to define not only the what but the how. Factors that influence delivery decisions include the quality of the property data, an accurate understanding of the real costs of property occupation and latent value in the existing estate, the relative willingness to divest property ownership and/or management, general market appetite and the state of the local property market, the availability of financing, and a realistic assessment of any liabilities in the estate.

There is no one-size-fits-all procurement model. Over the past decade, many examples have demonstrated how a well-founded business case, supported by a well-managed procurement process, can deliver organisational transformation through a significant property transaction.

Robust project management should guide the project through unplanned events that could otherwise jeopardise the outcome. A well-run process that achieves its milestones is key to retaining market confidence throughout the procurement process, which can often prove long and expensive. In addition, there should be enough flexibility to respond to unforeseen challenges through value engineering or adjustments in scope.

Beyond the deal itself, it is essential to institutionalise change and ensure that it delivers the anticipated benefits. Local authorities need to recognise that change management and post-contractual implementation are



Case Study: Scottish Parliament Building

The Scottish Parliament building may have won the Stirling Prize—Britain’s most prestigious architecture award—in 2005, but beyond its status as a “remarkable architectural statement,” the building’s lessons to public sector project development have been anything but laudable.

The 33,000-square-metre Holyrood complex, designed by EMBT/RMJM, cost £431 million: more than eight times the £50 million that was originally estimated for the parliament building, and more than twice the £200 million that was later seen

as a realistic starting budget for such a landmark building. The overrun resulted in the project being subject to an inquiry, which was conducted by Lord Fraser of Carmyllie. The inquiry report, released in 2004, concluded that more than £150 million had been wasted in design delays and over-optimistic programming.

The report criticised the project for taking a “construction management” approach, which allowed work to start before the design was complete and left any extra costs with the client. With a U.K. and a Spanish architect with cultural differences working from two different locations, this ambitious scheme created inevitable extra costs.

This case study highlights many issues that can arise with public sector development projects. While projects need political buy-in, political pressure in this case hampered the government’s ability to create a deliverable vision. The parliament building project also shows how problems can arise if occupational requirements are not understood from the outset. The new parliament’s accommodation requests added approximately 47 percent to the area of the complex.

Nevertheless, it has to be noted that the design has certainly achieved the vision for a successful public building; the parliament has, on average, 1,000 visitors each day, 361 days a year.

intensive processes that need to be planned and executed with the same degree of effort as the original procurement.

Sticking to the vision means translating it into a deliverable plan. The development of the Scottish Parliament is one project where the method of construction became a priority over other considerations, including costs—and where, without a clear project scope, delivery became protracted (see case study).



7 Engage the Private Sector Early

The private sector is already a major property supplier to local authorities through property leases, construction, and refurbishment work. Nevertheless, there is scope for much more interaction between the two sectors.

Traditionally, the market has responded only when the public articulates a requirement. However, there are benefits to engaging the private sector much earlier in a property transformation process. For example, early involvement of the private sector can help identify problems—and their solutions—even in the initial phases of the process. In addition, each side can test new ideas, and have the benefit of lessons learned by both sides. Such lessons might concern value creation, buildability, optimising planning, and exploiting com-

Case Study: Woolwich Town Centre

Greenwich Council engaged early with a private sector partner to help realise its ambitious plans for Woolwich town centre. In the summer of 2005, with the support of Sherlock Consultancy, it signed an exclusivity agreement with Tesco/St James's Investments to allow the comprehensive regeneration of a 3.47-hectare site at Woolwich New Road.

Greenwich Council's operations are spread across many buildings in the heart of town—an inefficient business model. The council saw that by restructuring its operations, it could provide a major catalyst for the area, confirming the location as a key part of the wider Thames Gateway regeneration initiative. Furthermore, by involving the private sector, the council could expand its plans beyond simply providing new public facilities, and could bring in commercial uses such as retail.



HLM ARCHITECTS

Plans are now in place for a new, £45 million council headquarters building that will also include civic functions such as a library and local service centre. The headquarters building is part of a much larger mixed-use scheme under which Tesco has signed up to build a 8,000-square-metre store on the site, as

well as approximately 850 new homes of mixed style and tenure—including affordable homes and key worker housing.

(Greenwich Council's office-consolidation project—part of a wider £750 million transformation project—is described in a separate case study on page 20.)

mercial potential through third party revenues. Early involvement can also allow the private sector to contribute to the design of the solution as well as to the delivery of the project.

Finally, engaging the private sector early can help an authority determine where the private sector can deliver value, and how to structure a deal to best capture this value. There is a well-developed market for outsourced estates: at the lower end of the value chain are standard property management services, and at the higher end are firms that will act as principals, providing full property services and shielding occupiers from key property risks.

Building effective relationships with the property market enables all parties to focus on their core business and allows commercially sensible judgements based on differing tolerance for risk. Understanding and appropriately allocating risk is crucial to the success of any partnership, and an early dialogue can identify key risks and determine how the property solution might address them. Recent portfolio deals have shown that the public sector can achieve real savings by transferring risks that have often proved difficult for the public sector to manage, such as demand, residual value, and availability.

Marrying the differences in core business focus and risk appetite can increase the potential for mutual gain. The accompanying case study illustrates how the London Borough of Greenwich is drawing upon private sector expertise to deliver a complex project to help the council both catalyse and support an organisational change programme.

8 Understand the Partner's Culture

To get the best out of a public/private partnership, each party needs to understand the other party's drivers and constraints. This can take real effort.

The private sector needs to really understand how the public sector makes decisions, the nature of the public sector's governance and accountability regime, and the fact that projects are not driven solely by financial considerations, but must also satisfy wider political and social priorities. The public sector has to understand and address the private sector's previous frustrations, such as poorly defined or commercially unviable projects, ambiguous organisational commitments, changes in project scope, and procurement delays. The public sector also needs to recognise the cost to the market of bidding for projects, particularly where a significant upfront investment is required but the basis for subsequent engagement is not clear.

Case Study: Project MoDEL

In common with many other major occupiers, the Ministry of Defence is seeking to replace unsuitable portfolios with fit-for-purpose estates. Project MoDEL aims to fund a major consolidation project through disposal receipts from sites that can be vacated once the new accommodation is in place.

Often, enough value is locked in a surplus estate to fund the cost of consolidation, but experience in the public/private partnership market suggests that both the gap in time between consolidation payments and disposal receipts, and the attrition in value that occurs when construction and disposal programmes are merged, can adversely impact value for money and even the financial viability of projects.

Project MoDEL represents an approach to integrating construction, churn, and

disposal into a single contract, in a way that really plays to the property market's core strengths, whilst protecting the public sector's commercial interests. The contract is based on the following:

- Recognition of the value that the private sector can create through its skills in planning, design, and property development;
- The cost-effective transfer of risk to the private sector—including time, cost, value, bridge financing, and pulling together all the relevant strands of the project;
- The alignment of interests so that each party has incentives to minimise costs and maximise disposal receipts.

The contractor is paid according to value created, instead of being paid a margin on costs incurred, and each party's commercial interests are aligned through (1) active management of costs



and the continuous testing of value for money through open competition, for each phase of the programme; and (2) the provision of effective incentives for the contractor to maximise disposal receipts (net of the cost of construction and churn).

Once achieved, the best way to sustain an open and effective culture is through hard work and clarity throughout the deal. This is best achieved by aligning interests and ensuring that responsibilities are clearly defined. Typically, public/private partnerships will be defined contractually, such as through a lease, project agreement, or other type of partnership agreement. The accompanying case study provides an example of a contract designed by the Ministry of Defence to align public and commercial interests in a long-term property relationship.

It may be helpful to create a road map to schedule a plan of action and aid decision making throughout the process. Defined roles and expectations provide a strong framework for successful partnerships.

9 Design for the Future

Technologies and work practices change quickly. To accommodate such changes, a council needs to consider occupational trends and maintain sufficient flexibility to anticipate future needs, thereby minimising the risk of creating an obsolete estate.

Workspace should be designed to be as flexible as possible, consistent with meeting service requirements. Physical flexibility should be at the forefront of new construction and refurbishment schemes. Ideally, common space, such as working areas and conference rooms, can be used by more than one department and for more than one purpose. One way to achieve flexibility is to design conference rooms that can be used for large-scale meetings and then divided into smaller rooms for work sessions, allowing for more efficient use of space. Possi-



Case Study: The BBC

In 2000, the BBC entered into a contract to modernise its estate. Previously, it had operated an estates model in which virtually all broadcasting was delivered through highly specialised, purpose-built, single-function facilities. This significantly constrained the alternative uses that the BBC itself could use the facilities for, and limited the commercial value in the event that the BBC wished to sell the site (since so few commercial operators could use the facilities without significant refurbishment).

With advances in technology, and the opportunity to catalyse change through a portfolio deal, the BBC remodelled its estate so that much of its broadcasting activity could be delivered from regular office accommodations. This change delivered savings in construction costs, increased operational flexibility, and enhanced residual value.

ble expansion should also be planned for, so that what is used as a common room today can be changed into an office if demand increases. The BBC case study is a great example of designing flexible space.

Flexible work practices can also deliver significant savings. The average annual cost of running a single workspace in the U.K. is £6,000–£10,000 (£15,000 in London). A number of practices can reduce workspace requirements, including home working, hot desking, and providing staff—social workers, for example—with portable technology.

The future form and functions of local government remain uncertain, and there is the possibility of both structural reform and the transfer of service-delivery functions to third parties. Given the potential volatility of demand, it

Case Study: Project STEPS

Like Project PRIME, Project STEPS involved a 20-year serviced accommodation deal whereby the rights and responsibilities of the 700-property estate of Inland Revenue and Customs & Excise was transferred to a private sector company, Mapeley. Unlike PRIME, where flexibility was pre-paid (i.e., the cost of vacating space up to the aggregate cap was built into the overall charge), in STEPS the contract was structured so that for each year of the contract, Inland Revenue is informed of the financial cost of exercising its right to vacate space. Thus, through a single annual cost, government is relieved of the uncertainty associated with the costs (such as dilapidations and other landlord costs) from surrendering traditional lease break.

In the competition, tenderers were required to bid the cost of flexibility at varying levels of aggregate demand. The tenders demonstrated that the marginal cost of flexibility between 40 percent and 50 percent was very low, demonstrating very modest cost to government.



may be sensible to design portfolio solutions that allow for reductions in aggregate space requirements, in case of a major change in operations. The Project STEPS case study provides an example.

Designing for the future also requires planning for business continuity in the event of a natural or manmade disaster. At least some aspect of local authority functions needs to be operational immediately after a disaster occurs. Building design should allow for strategic functions to be up and operational as soon after an emergency as possible.

10

Make a Big Splash

Great buildings and good design can catalyse community regeneration and foster civic pride. Bad design can destroy them. Local authorities should be bold in their property transformations, using them as an opportunity to create something of value for the community.

Part of the value of redesigning property commitments to catalyse and support service-delivery improvements will come from an authority's ability to adopt a holistic approach. Taking a portfolio perspective enables a council to leverage its buying power, achieve real change in the way its does business, and positively shape the physical environment.

The regenerative effect of property decisions should not be underestimated. Local authorities should act as role models, investing in—and insisting on—good design and high-quality buildings. This approach helps create “a big splash” by attracting other high-quality development to the area.

Case Study: London Borough of Greenwich

The story of Greenwich is typical of the property challenges local authorities face today. After major expansions in housing, social care, and highways between 1950 and 1980, cutbacks in local government spending led to over 20 years of stagnation in the council's property investment. This left the majority of council buildings unfit for purpose, with the council's housing estate needing renovation and a £100 million

backlog in maintenance and repairs for its non-housing estate. Greenwich Council was compelled to take a hard look at how its property strategy could support this expenditure.

In response to the catalogue of under-investment and a wider modernisation agenda, Greenwich has created a vision: to reinvent itself as a modern and efficient service provider to its fast-growing population of 225,000. The vision—an 11-year, £750 million modernisation programme—is a big-bang solution driven by the council's regeneration ambitions for

the area. Private sector expertise, in the form of Sherlock Consultancy, was engaged as strategic partner to programme and manage asset disposal and new capital investment as the council consolidates its operational estate from more than 30 properties to three. This will allow a £115 million investment in service centres, improved leisure facilities, and modern office accommodation. Key to the strategy is that both disposal sites and consolidated council facilities—such as Eltham Centre and Woolwich Centre—must be tailored to support the regeneration of the borough's town centres.

For example, the £20 million Eltham Centre will include not only a local service centre but three pools, leisure facilities, a refurbished library, and Greenwich Community College. In Woolwich, the scheme will be key to the area's regeneration, and will include a major mixed-use development with a new headquarters building, new library, local service centre, and a contact centre. Further major investments will be made in schools and housing, supported by new information technology to allow the integrated and standardised delivery of services.



The placement of public buildings impacts surrounding property, transport, and commercial services. Local authorities must consider the full context of a project rather than just single buildings, and ask themselves what the effect of investments will be on the public realm.

It is place, not space, that matters. The regenerative benefits of place-based investment should be used to create an identity and a sense of place, and should be a driving force in the process. Development should also adhere to sustainability principles, such as ensuring that a project is located close to existing infrastructure. Where adequate infrastructure is not available, long-range plans must consider how the necessary infrastructure will be developed.

Making a big splash drives home to the whole community the importance of the public investment. When planning new developments or refurbishments, local authorities must consider social and economic spillover effects. In the modernisation programme being undertaken by the London Borough of Greenwich (see case study), a streamlined estate will improve operational performance. In addition, both the new portfolio and any redevelopment taking place at sites that are sold to fund the transformation programme will be used to drive the regeneration of the borough.

In summary, local authorities should consider the following basic design principles to insure that significant public investments in real estate are maximised:

- Promote a diversity of uses;
- Encourage compactness;
- Foster intensity of development;
- Ensure a balance of activities;
- Provide for accessibility;
- Create functional linkages;
- Build a positive identity.¹

Note

1. Cy Paumier, *Creating a Vibrant City Center* (Washington, D.C: Urban Land Institute, 2004), 17.

Ten Principles for Creating Value from Local Government Property

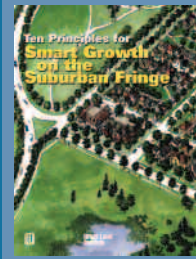
Andrea Carpenter
Mary Beth Corrigan
Rachelle L. Levitt
Paul Stephen

After two decades of underinvestment in property, local authorities are now entering a new era in which they have the flexibility to respond to the goals set by the central government and the expectations of their citizens. Many local authorities are gearing up to transform their civic and administrative portfolios to match the challenges of modern service delivery, including the impact of new technology and opportunities to engage with the private sector. Based on contributions from experts in the property industry and supported by case studies, this booklet details the principles that local authorities and the private sector need to consider as they embark on any property transformation.

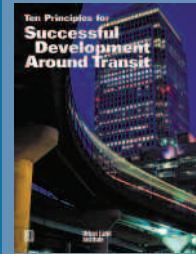
Topics include:

- Evaluating the contribution that property makes to the business of a local authority;
- Building consensus for change;
- Developing a realistic, affordable, and deliverable solution;
- Using commercial leverage to optimise financial flexibility and secure the best partners;
- Promoting civic engagement so that property access and service delivery support the democratic process;
- Delivering a vision through robust project management and transition management;
- Building effective relationships with the private sector to maximise value;
- Understanding the culture of the other party in a public/private partnership and clearly defining roles and expectations;
- Building in flexibility for efficiency and improved performance;
- Catalysing community regeneration and fostering civic pride by acting as a model developer.

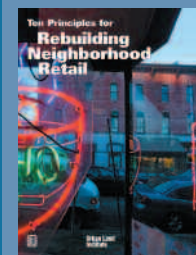
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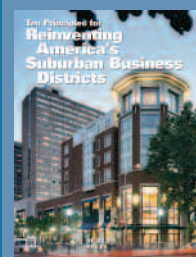
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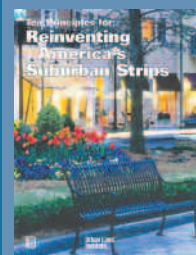
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