STRATEGIC MANAGEMENT OF LOCAL AUTHORITY PROPERTY IN THE UK: A CASE FOR POSITIVISM IN ISLAND COMMUNITIES

Brian Sloan\textsuperscript{1} and Elizabeth Dennison\textsuperscript{2}

\textsuperscript{1} School of Engineering and the Built Environment, Edinburgh Napier University, Edinburgh, Scotland, EH10 5DT
\textsuperscript{2} Orkney Islands Council, Environmental Services, Kirkwall, Orkney, KW15 1NY

As indicated in UK Government reports and previous research, strategic management of local authority property has been a long-term goal within the United Kingdom. However, most of the available literature has taken a negative stance on the issues involved in strategic property management, encouraging local authorities to divest their non-core property holdings. Rural and isolated communities display characteristics that warrant a different approach to the management of their property assets, in that property in these communities is used to support and develop local industry and the wider community. This paper reviews and considers the available literature and identifies a need for ‘positivism’ with regard to the treatment of property assets by local authorities, with particular reference to an island community i.e. the Orkney Islands. The paper also proposes further research to be undertaken into how property provided by Orkney Islands Council should be seen positively as an ‘enabler’ within fragile island communities.

Keywords: investment, island communities, local authority, property ownership, strategic management.

BACKGROUND

Over a period of more than twenty years Government agencies in the United Kingdom, such as the Audit Commission (AC) (1988 and 2000) and a number of academics, for example Gibson and Orchard-Lisle (1994) and Martindale (1997), have focused on the negative aspects of public sector property ownership. Problems identified by the AC (1988 and 2000) included an incomplete knowledge of property holdings resulting in inadequate management, and failure to look on property as a strategic resource. Gibson and Orchard-Lisle (1994), drawing on the work of the AC (1988), highlighted the conflict between landlord and tenant objectives with regard to building maintenance, as well as the difficulties of developing a property strategy within a local authority environment. Lyons (2004), in his Report to the UK Chancellor of the Exchequer, added organizational culture in the form of departmentalism and fragmentation to the list of issues considered to detract from efficient local authority property management.

In defence of local authorities, Martindale (1997) identified the financial constraints imposed by Government as impacting on the ability of local authorities to manage

\textsuperscript{1} b.sloan@napier.ac.uk

their property holdings effectively, and Deakin (1999) drew attention to the difficulties faced by local authorities in integrating the initiatives proposed by bodies such as the AC, Chartered Institute of Public Finance and Accountancy (CIPFA) and the Royal Institution of Chartered Surveyors (RICS) into strategies. Deakin believed there was a lack of expertise to progress the ‘… cultural development of both the corporate strategy and financial instruments required to form the framework for such initiatives’ (ibid. p18).

The aim of this current paper is to highlight the positive, empowering role played by local authority property in promoting community well-being and sustainability. The argument will concentrate upon island communities, using the Orkney Islands as an example of how these communities should treat their property holdings differently to their mainland counterparts.

Over the years questions have arisen as to the desirability of local authorities owning commercial property, given their raison d’être is service provision. A number of authors have adopted a somewhat narrow, purely investment-related view of local authority ‘non-operational’ property, opining that because there was not a ‘statutory objective of property investment’, local authorities should be questioning why they owned such property, (Martindale, 1995, p10). Britton, Connellan and Crofts (cited in Martindale, 1995, p13) reinforced this view and considered that ‘TNRP’ (‘tenanted non-residential property’) ‘is unnecessary and should be sold’, while the AC (2000) urged local authorities to consider alternative means of engendering economic development, such as grant funding. Reports published by agencies such as CIPFA (cited in Bond and Dent, 1998), the AC (1988 and 2000) and, more recently, the Scottish Government in its Asset Management Review (2008), identified a number of key issues which have led to inadequate property management and authorities being urged to focus on the costs and benefits of holding property.

In stark contrast, little is found in the literature regarding the positive role local authority ‘non-operational’ property, defined by the RICS as property held by local authorities for uses other than direct service provision (Martindale, 1995), can play in engendering the sustainability and well-being of a remote island community such as the Orkney Islands. Despite acknowledging that ‘non-operational’ property can play a part in economic regeneration by attracting inward investment and creating jobs, UK local authorities were nonetheless advised to consider ‘their continued need to own these assets’ (AC, 2000, p20).

INTRODUCTION

The ‘real value’ of Orkney Islands Council’s ‘non-operational’ property extends beyond direct financial return to the authority and encompasses the broader social and economic needs of the community as a whole. In the words of the Best Value Guidance contained in the Local Government in Scotland Act 2003 it represents a ‘… contribution to the achievement of sustainable development’ (p7).

Apart from primary employment and economic statistics, it is difficult to quantify the social and community benefits derived from the provision of ‘non-operational’ property by a local authority. In this connection, French (1994, p16) considered that ‘… there is a great danger that pure financial measures are used inappropriately to judge the performance of social assets’. This may explain why the positive contribution such property can make to community well-being has been largely ignored in the body of literature reviewed. It could be that to include such information
would weaken the political case advocating that the public sector divest itself of such property.

UK Government focus has remained firmly on addressing the inefficiencies and dizeconomies of local authority property management and ownership raised by the 1988 and 2000 Audit Commission Reports. Lyons (2004), while acknowledging that successful asset management involved adopting a strategic approach to the discipline, nonetheless intensified the drive towards the disposal/transfer of the public estate. Despite this, other literature has highlighted an incomplete knowledge of public sector property holdings (Scottish Government, 2008). With this view it is not possible to align the built estate to organizational objectives, as proposed by the AC (2000, p9), when the extent and nature of that estate is unknown.

Lyons (2004) actively encouraged local authorities to dispose of property by setting disposal and capital realization targets. In attempting to justify disposal of public sector property in this manner, the fundamental principles of asset management, promulgated under the auspices of the Local Government in Scotland Act 2003, and the Asset Management of Local Authority Land and Buildings Good Practice Guidelines (ODPM/RICS, 2005), appear to have been replaced by capital realization and disposal targets. Martindale (1995, p20), for example, considered that maximizing capital returns may have been central to the AC’s 1988 property disposal recommendations, given they were mooted at a time when property prices were high. With the current economic recession starting in the autumn of 2008, this premise is now questionable.

The benefits of one-off capital receipts from property disposals and the ‘savings’ to be made by transferring responsibility for property provision to the private sector served to incentivize Lyons’ proposals. Figure 1 below illustrates projected property disposal targets over the period 1998 to 2011, and provides evidence that much of the onus was placed on local authorities to dispose of both social housing and non-housing stock.

![Figure 1: Projected Property Disposals and Capital Receipts (Source: Lyons, 2004)](image)

**INADEQUATE MANAGEMENT OF THE PUBLIC ESTATE**

The concept of property management in a local authority context is particularly complex given the diversity of objectives and the fragmented nature of the organizations. Worral, Collinge and Bill (1998, p473) believed that it was ‘...impossible to disentangle symptoms from problems’ because of the transient nature of these problems and because intervention merely served to irrevocably change the problem. This view was supported by Deakin (1999), who identified problems in
integrating initiatives into strategies which would ultimately result in improved local authority property management.

**The impact of organizational culture on property management**

Of particular significance to current thinking with regard to local authority property, i.e. its disposal or transfer as advocated by Lyons (2004) and Quirk (2007), is the body of literature which exists drawing attention to inadequate management of the public estate. Deakin (2004, p10) presented a characterization of ‘estate’ and ‘property’ management, explaining the distinguishing features of the two. From this it becomes apparent that many of the inadequacies with regard to local authority property management arise from how property is perceived within the organization. Britton, Connellan and Crofts (cited in Deakin, 2004, p10) distinguished between the characteristics of ‘estate’ management (static, inert, reactive, unresponsive and partial) and ‘property’ management (dynamic, active, pro-active, responsive and comprehensive) to account for the differences noted. It is evident from the work of UK Government agencies and academics such as Gibson and Orchard-Lisle (1994), French (1994) and Martindale (1997) that many of the features synonymous with ‘estate’ management were/are those present in a local authority context. In advocating various asset management initiatives the Audit Commission was attempting to transform organizational culture to a point where property was viewed as a strategic resource.

**Local authority property management problems**

Gibson and Orchard-Lisle (1994, p11) summarized the work carried out by the AC and the National Audit Office in the latter half of the 1980s to draw attention to two significant issues deemed by these organizations to be detrimental to local authority property management. The first of these was the failure to adopt a strategic approach to property management, which remained a problem at the time of the AC Report in 2000, when it was suggested that LAs largely ignored their property holdings, with the exception of capital-hungry new build projects, (pp12-13). Gibson and Orchard-Lisle (ibid., p11) suggested that the lack of a strategy resulted in reactive, ad hoc property management driven by the immediacy of user needs and cost minimization. The result of this was that little thought was given to the future of the property or its potential to add value to the organization either in use or through realization of capital. The second major weakness identified by Gibson and Orchard-Lisle (ibid.) was failure to acknowledge both the realizable value and value in use of property holdings. This in turn resulted in the absence of property performance monitoring. They suggested the ‘lack of explicit property objectives’ meant that property users disregarded the costs of occupying space, considering it to be a free resource (p11). As such, there was no incentive to monitor how efficiently, effectively and economically property was being utilized and no recognition was given to the costs involved. The latter resulted in occupying departments being unable to quantify the real costs of service provision as this was in effect subsidized by the absence of asset rents (AC, 1988). Within this context, Roulac et al. (2003, p32) suggested that without knowledge of the contribution property makes to the organization it is difficult to measure performance either between departments within the organization or with external bodies. Baldry (1995, p31) was also of the opinion that limited means were available for measuring property performance and those that were in existence were seldom put into practice.

Twelve years after the 1988 Audit Commission Report, the AC (2000, pp12, 14, 22, 26) again highlighted a range of areas leading to public sector property management
difficulties. These included failure to treat property as a strategic resource, failure to review property holdings, an incomplete knowledge of property ownership, lack of central asset registers, political parochialism and opposition to change, as well as insufficient information to support decisions.

**Justifying disposal of the public estate**

In summary, the body of literature studied is biased towards the negative aspects of Local Authority property ownership and has identified numerous management inadequacies which support the disposal/transfer programme as advocated by Lyons (2004), the Office of the Deputy Prime Minister (ODPM, 2006) and Quirk (2007). In focusing largely on the negative aspects of Local Authority property ownership and management, the question arises as to the extent to which this is being used to serve the political purpose of service provision without recourse to debt funding. Martindale (1995, p20), for example, believed the AC Report (1988) recommended property disposal at a time when property prices were high in order to maximize receipts. There is also evidence in the literature that the 1980s was a period during which central Government attempted to control public spending, especially by limiting the funding paid to Local Authorities in respect of service provision (Worrall, Collinge and Bill, 1998).

**THE COMPLEXITIES OF DEVELOPING A PROPERTY MANAGEMENT STRATEGY IN A LOCAL AUTHORITY ENVIRONMENT**

The literature studied has highlighted the failure by Local Authorities to identify the relevance of property management strategies to the problems they experience, AC (2000) and Gibson and Orchard-Lisle (1994), for example. Gibson and Orchard-Lisle (ibid., p13) highlighted a number of factors which affect the public sector’s ability to manage property strategically. These issues, fundamental to reinforcing a property management strategy, have been addressed in detail previously. To summarize, they include lack of property information to inform the strategy, an inadequate understanding of how property interacts with other resources to satisfy organizational objectives and lack of performance indicators to facilitate year-on-year and inter-organizational comparisons.

**Property management in a political context**

It has also been suggested by Gibson and Orchard-Lisle (ibid., p12) that the political environment in which local authorities operate is not conducive to strategic property management. They cite the short political cycle in which these organizations exist as hampering the development of property management strategies given the ‘… long planning horizon required to manage property assets’. In addition, the AC (2000) mentions members’ accountability to their electorate and their reluctance to embrace change as also having a detrimental impact on local authority property management. Another factor contributing to the difficulties faced by Local Authorities in attempting to implement the concept of strategic property management is the conflict which exists between the idea of ‘profit-motivated’ property management and the ‘socially responsible’ property management paradigm (Bond and Dent, 1998, p371). Local Authorities are not by nature profit-driven and attempts to impose the disciplines of private sector strategic property management are ‘fundamentally misplaced’ (Ranson and Stewart, cited in Worrall, Collinge and Bill, 1998, p 479).
The concept of ‘strategy’ in a not-for-profit organization

Two further topics of significance which impact on the ability of local authorities to develop property management strategies relate to the concept of strategy and to defining the objectives of a ‘not-for-profit’ organization. In connection with the concept of strategy, Worrall, Collinge and Bill (1998, pp472-493) identified two areas which they considered cause problems in a local authority context. Firstly, they suggested that there was no consensus as to what constituted ‘managing strategically’ and secondly they believed that ‘strategic management’ had different meanings within different organizations. This is exemplified when drawing a comparison between the work of Roulac et al. (2003, p31) and Gibson and Orchard-Lisle (1994, p13). The former believed that organizations should adjust their activities to align with changes in the availability of property, and the latter considered that an active approach should be adopted when managing property to ensure that it is sufficiently flexible to meet changing organizational requirements.

The concept of ‘strategy’ is itself open to various interpretations. For example, Drucker (1959, as cited in Hannagan, 2005, p132) stated that strategy is ‘… the pattern of major objectives, purposes or goals and essential policies or plans for achieving these goals’. Baldry (1995, p29) enlarged upon the definition by describing strategic management as ‘… the process by which an organization defines and determines objectives, [plans] the actions required to achieve these objectives’, implements the actions which will achieve the objective and thereafter evaluates progress and measures the results. Mintzberg, cited in Worrall, Collinge and Bill (1998, p474) suggested a definition which distinguished between ‘intended strategy, unrealized strategy, deliberate strategy, emergent strategy and realized strategy’.

Lastly, Howarth (2006, p3) defined ‘Strategic Asset Management’ as being ‘… a structured, holistic and integrating approach for aligning and managing over time service delivery requirements and the performance of property assets to meet business objectives and drivers’.

Defining objectives in a fragmented organization

The literature studied so far has evidenced some of the complexities with regard to the concept of strategy and its definition. It has also been possible to identify from the literature that the development of a local authority property management strategy is difficult, given that the key organizational objective is not profit maximization (Baldry, 1995). In this connection Bond and Dent (1998, p371) identified the conflict that exists as to whether the aim of a local authority is to manage its property for profit or social benefit, while Martindale (1995) suggested that the primary reason for local authorities owning property was unclear. External Government agencies (such as the Audit Commission) and internal forces (e.g. economic development or investment) impose conflicting objectives and McKenzie (cited in Bond and Dent, 1998, p371) emphasized the importance of a ‘clear end objective’ in facilitating efficient property management. The range of difficulties discussed may help to account for the ‘general absence of a medium/long term property strategy’ in local authorities which was identified by York Consulting (2007, p21).

In applying the concepts of ‘strategy’, ‘managing strategically’ and ‘strategic management’ to Orkney Islands Council with its propensity to provide specialist factory units for specific industries, the difficulties in defining the ideas become apparent. Although it could be argued that the Authority has identified as a key objective the promotion of community sustainability (OIC, 2000, 2002 and 2008) and arguably implements a property strategy to support this goal, anecdotal evidence
suggests that property provision is largely a reaction to particular circumstances. Therefore, the question arises as to whether this practice can be interpreted as either ‘managing strategically’ or ‘strategic management’.

THE DEVELOPMENT OF EFFECTIVE, EFFICIENT AND ECONOMIC PROPERTY MANAGEMENT IN A LOCAL AUTHORITY SETTING

‘Best Value’ is a further concept which can be linked to property management in a local authority context through the emphasis it places on effectiveness, efficiency and economy. This has implications in respect of Orkney Islands Council’s policy of providing property in support of local industry.

Incentivizing property disposals
Baldry (1995, p31) suggested that not-for-profit organizations such as local authorities were ‘constrained from being opportunistic’, and until 1998 UK Government policy served largely to discourage an entrepreneurial mindset towards the disposal of public sector surplus property. Limitations were in place on how councils utilized capital receipts, being required to offset a percentage of the capital realized against outstanding debt (Martindale, 1997). Local authorities therefore lacked the incentive to actively manage their property or to realize the capital tied up in surplus or under-performing assets. Martindale (ibid., p235) argued that ‘Government constraints on the functions and finances of councils significantly affect their ability to manage and develop property’. However, from 1998 onwards the public sector was incentivized to adopt a more enterprising approach to its activities by being allowed to retain capital receipts from property disposals (Lyons 2004, p26).

A further measure put in place to encourage local authorities to actively manage property holdings was the Resource Accounting and Budgeting Framework set up in 2003 (Lyons, 2004). Theoretically, this introduced a competitive, decentralist, more accountable and corporate-minded attitude towards the management of property which was intended to lead to a departure from the concept of the ‘static estate’ and result in property assuming the role of a dynamic resource requiring constant review and valuation. Prior to its introduction, Deakin (1998a, p89) highlighted one of the main advantages of this approach as being a departure from the hitherto ‘expenditure-driven’ public sector financing arrangement. However, Lyons in 2004 noted the view expressed by the National Audit Office that this new accounting framework had so far failed to ‘influence departmental behaviour at board room level’ (p8).

Asset registers and asset rents
In his review of the 1988 Audit Commission Report, French (1994) made two suggestions which he considered would result in the better management of the public estate. The first suggestion, which has been identified in both earlier and later literature (e.g. Gibson and Orchard-Lisle 1994, Dent, 1997 and Lyons, 2004) as being fundamental to underpinning any property management strategy, was the establishment of a comprehensive asset register to underpin asset management plans, facilitate performance monitoring and valuation.

The problem identified in Deakin (1999) of transferring initiatives into strategies, in a local authority context, valuing public property for this purpose is fraught with difficulty and was emphasized by earlier writers (Dent and Bond, 1993; Dent, 1997). According to Dent and Bond (1993, p314) many public sector properties are classified as being ‘non-market’ properties, or properties for which there would be little demand
if they were to be placed on the open market. Deakin (1998b, p62) also referred to the ‘unease about the basis of property valuation’ proposed by the AC and CIPFA and the absence of ‘clear standards for the measurement of property performance’. The problems surrounding the valuation of ‘non-market’ properties are particularly pertinent to Orkney Islands Council with its portfolio of specialized factory units, e.g. abattoir and fish processing factories.

Based on the observed practice within large UK companies of segregating property management from operational activities, French (1994, p16) suggested that local authorities form separate property sections to help promote improved property management. He believed that the creation of such an organizational structure could facilitate the application of asset rents, thereby allowing departmental performance to be measured on an equal basis and encouraging economic use of property. Gibson, French and Oughton (2002, pp 14-15) also acknowledge the importance of asset rents in engendering a realization that property is not a free resource.

CONCLUSION

In conclusion, the literature relating to local authority property management over the last two decades, although diverse, fails to identify the positive contribution local authority property can make towards engendering community well-being and sustainability. Although it examines the issue from numerous perspectives, these are representative of the negative aspects attaching to local authority property ownership. Government agencies, such as the Audit Commission in 1988 and 2000, identified multifaceted property management inefficiencies, resulting in the recommendation that the public sector should review property ownership and consider disposal where appropriate, particularly of buildings classified as ‘non-operational’ property. Justification for such action was found in the opportunity costs of holding such property (Lyons, 2004). Recent evidence drawn from politically-orientated literature (ODPM 2006; Quirk 2007) has identified that the disposal process has evolved to become more focused on social responsibility and community empowerment. The promotion of this initiative follows Wheeler’s argument (cited in Bond and Dent, 1998, p371) that local authority property should be considered from other than a profit-related perspective. Wheeler expressed the positivist view that ‘… the goal of Local Authorities is to contribute to improvements in total social and economic welfare’.

In this latter respect, Orkney Islands Council has set as key objectives ‘Promoting Sustainability’ and ‘Promoting Survival’. In the publication ‘Orkney 2020: Our Vision’ (p5), survival is interpreted by the Authority to mean ‘… maintaining fragile communities as places where people can live and work’. Although only applicable in England and Wales, the Sustainable Communities Act 2007, adopted the positive view that ‘… local people know best what needs to be done to promote the sustainability of their area’ (Communities and Local Government, 2008, p3). Unlike the Lyons Report (2004) with its ‘broad-brush’ approach to property disposals and capital realization, the 2008 Report seems to recognize that individual local authorities have area-specific challenges and must adopt a positive asset management strategy which enables them to meet their objectives.

FURTHER RESEARCH

While this paper is essentially a literature review outlining the negative stance taken over many years in recommending how local authorities should regard their property
holdings, it is recognized that evidence on the ground can provide additional insights into how property is actually used within fragile island communities. To this end it is anticipated that the next stage in this research will be to conduct a survey of relevant community and council stakeholders (including council officials and elected members, together with commercial property tenants and representatives of local business organizations) to ascertain how they view property as being used in an island community to support the local economy. Additionally, it is intended to review how other Scottish Local Authorities have responded to the Government’s negative view on property provision to support their local communities. It is anticipated that this further research will provide insights into how Orkney Islands Council balances the concepts of property motivated property management, with socially responsible property management. This further research will be the subject of a follow-up paper.

REFERENCES


