6 Use of physical assets

Introduction

6.1. Paragraph *(c)* of our terms of reference requires us to consider `whether the AEA makes efficient and economic use of its physical assets, including the use, redevelopment and disposal of land and buildings'. AEA's most recent set of annual accounts contains a summary of tangible fixed assets, valued at £176.8 million (CCA net) and shown in Table 6.1.

TABLE 6.1 **Tangible fixed assets at 31 March 1991**

£ million

	Gross	*Depreciation*	*Provision for permanent diminution in value*	*Net*
Land and buildings	198.3	46.0	27.2	125.1
Plant and equipment	121.0	57.7	28.0	35.3
Assets in course of construction	17.3	0.0	0.9	16.4
	336.6	103.7	56.1	176.8

Source: AEA.

6.2. In this chapter we first focus on AEA's use of property assets (land and buildings) and then consider the use of non-property assets. Our conclusions and recommendations are at paragraphs 6.36 to 6.47.

The AEA estate

6.3. At 31 March 1991 AEA had major property interests in London, Harwell, Culham, Winfrith, Risley, Culcheth and Dounreay. In addition, property was leased at Windscale, Springfields and Aberdeen.

6.4. In London, 11 Charles II Street is currently in use as AEA's CHQ building but is due to be vacated in spring 1992. It has been leased on a fixed rental, with some 64 years unexpired at 31 March 1991. It has provided some 75,000 sq ft of office accommodation of which some 5,000 sq ft on the ground floor is sub-let. AEA also has a lease on an adjoining building, Rex House, which expires in 1994. AEA is no longer in occupation itself but a substantial proportion of it is sub-let. During the course of our inquiry the lease on 11 Charles II Street was sold and we describe the circumstances more fully in paragraphs 6.23 to 6.26.

6.5. The Harwell Laboratory is situated in the Oxfordshire countryside. The site extends over 650 acres divided by a security fence. AEA's business activities cover 340 acres (300 of which are in security-fenced areas). The remaining area comprises a sports ground, parkland, shops, grazing land and a designated, but as yet undeveloped, housing site. The estate has 150 buildings, together with houses and shops. There are several external tenants. Culham is situated some 10 miles from Harwell on a 200-acre site with extensive open space within its boundaries. The site is in the approved Green Belt around Oxford. Main on-site activities relate to fusion R&D, with the international JET project occupying the eastern sector of the area. The buildings are relatively modern, having been largely built in the early 1960s. Planning permissions for JET are temporary and AEA is currently required to return the site to a greenfield condition after the project is complete. This will involve nuclear decommissioning liabilities. Unlike Harwell, Culham is not an NII-licensed site.

6.6. Risley in Cheshire occupies a site extending to some 120 acres. It has good accessibility to the motorway network being bounded on one side by an expressway which leads within 5 miles to the M6/M62 interchange. It is situated within an area comprising significant modern office and light industrial development. The site, being roughly rectangular in shape, has been divided into four for estates planning purposes. The north-west quadrant comprises the enclosed AEA Risley Laboratory. The two eastern quadrants contain miscellaneous minor buildings, offices, stores and workshops, leased-out property and potential development plots. The remaining quadrant contains the three main office blocks plus restaurant and car parks. This quadrant dominates the site's main frontage and access routes. A high proportion of the office space is externally let. The site at Culcheth, about 5 miles from Risley, is triangular in shape and extends to some 14 acres. The site is occupied by AEA's S&R business. Risley is not a licensed site and does not have ongoing decommissioning work which could affect demolition and clearance programmes. Decommissioning of nuclear facilities previously on the Culcheth site has already taken place.

6.7. Winfrith occupies a site in the south Dorset countryside. It is the only major site constructed for AEA from greenfield. AEA's ownership is 1,150 acres of which the site, within a security boundary, totals 340 acres. The three main reactors on the site (Dragon, Zebra and SGHWR) are located at the south-western periphery. The reactors are shut down. SGHWR is undergoing decommissioning; the other two have fuel removed and are in care and custody. Two smaller reactor facilities are fully operational in more central buildings. The rest of the site comprises R&D facilities and offices. Most of the 183 buildings were built in the 1950s and use ranges from office-based activities, through small-scale laboratory experiments, to rig and pilot plant development together with service and engineering support. There is one external commercial letting on the site at present. While the site is nuclear-licensed the licensed boundary has been delineated with some care to create non-nuclear zoning for AEA non-nuclear businesses and for potential external letting and development.

6.8. Dounreay is situated in a remote and largely rural part of northern Scotland and the AEA workforce probably constitutes some 17 per cent of workers in Caithness. The site, extending to 180 acres, lies within AEA-owned land totalling 1,250 acres, the remainder being let for agricultural purposes and to the Vulcan Naval Reactor Testing Establishment (NRTE). There are about 200 buildings at Dounreay and only one outside tenant, Vulcan NRTE. The greater part of the site is dominated by buildings in which nuclear work has been undertaken and which will be a decommissioning liability. The entire site is within the licensed boundary with the exception of the access road, the airfield and associated buildings.

6.9. AEA also leases property at Windscale, Springfields and Aberdeen. At Windscale, on the Cumbrian coast, AEA leases some 45,000 sq metres of floorspace of the BNFL Sellafield site on a 99-year lease which began in 1971. A similar lease is currently held by AEA on about 18,000 sq metres of floorspace at the BNFL Springfields site, near Preston, but the main operations of AEA there have been closed as part of the site rationalisation policy. The Europa facility of the APS business (see Chapter 11) is based at Aberdeen in a leased shell building of some 350 sq metres.

6.10. The CCA net book values of property assets at the various sites are shown in Table 6.2.

TABLE 6.2 **CCA net book values of property assets at 31 March 1991**

£ million

	CHQ	*Harwell*	*Culham*	*Winfrith*	*Risley*	*Culcheth*	*Dounreay*	*Windscale*	*Total*
Land	-	3.2	0.3	0.8	6.5	0.8	0.5	-	12.1
Buildings	14.9	40.2	3.7	18.6	30.0	2.5	2.8	0.3	113.0
Total	14.9	43.4	4.0	19.4	36.5	3.3	3.3	0.3	125.1

Source: AEA.

6.11. Table 6.3 shows the progression of space utilisation at the main sites over the last three years and the AEA manpower deployed there. AEA commented that there would inevitably be a lead time between vacation of buildings and their demolition or disposal, for instance to allow for reconfiguration of services or to find tenants. This was particularly so in the case of buildings in which nuclear work had been undertaken and where decontamination and decommissioning was required. Also, a big part of the reduction in the workforce had been of industrial employees, whose use of accommodation was more limited than that of office-based staff.

TABLE 6.3 **Space utilisation and AEA manpower**

		1989/90	*1990/91*	*1991/92*
Harwell/Culham	(1,000m^2 net)			
	AEA occupied	196	173	166
	Externally rented	6	6	6.5
	Vacant	18	41	47
	Total	220	220	219.5
	AEA manpower	4,703	4,153	3,700
Dounreay	(1,000m^2 net)			
	AEA occupied	96.4	96.9	96.6
	Externally rented	0.1	0.1	0.1
	Vacant	0.8	0.8	1.1
	Total	97.3	97.8	97.8
	AEA manpower	1,883	1,744	1,653
Risley	(1,000m^2 net)			
	AEA occupied	65.4	65.4	59.2
	Externally rented	20.1	25.3	35.4
	Vacant	11.3	6.1	3.5
	Total	96.8	96.8	98.1
	AEA manpower	1,884	1,714	1,575
Winfrith	(1,000m^2 net)			
	AEA occupied	96	95	90
	Externally rented	1	1	1
	Vacant	2	3	8
	Total	99	99	99
	AEA manpower	1,737	1,374	1,275

Source: AEA.

Estates strategy and objectives

6.12. AEA told us that the main thrust of its estates strategy was to support the rest of the AEA businesses while identifying land and buildings surplus to requirements and developing plans for their exploitation. Property development would not in itself be a core activity. For sites from which AEA would withdraw, the financial return would be maximised. On sites which AEA planned to continue to occupy, rationalisation would be a priority, to produce greater service and efficiency and to create the opportunity to maximise the return from surplus assets while having due regard to the impact of development on continuing AEA operations. In AEA's present financial circumstances the estates business would operate under tight financial constraints. DEn had been notified of certain net cash flows and would expect them to be achieved. In looking at potential opportunities for development or realisation, EFL effects would have to be borne clearly in mind.

Organisation and management

6.13. AEA's property assets are under the custodianship of Site Directors who are responsible for their maintenance and development. Estates development and exploitation proposals originate with Site Directors for discussion with the Managing Director, Sites and Personnel, and more widely at the Estates Business Board of Management where Site Directors are supplemented by the

Managing Director, Industrial Business Group, the Head of Strategic Planning, the Head of CHQ Personnel and Administration and the Corporate Estates Business Manager. This advisory board may lend its weight to estates proposals which can either go ahead within the Managing Director, Sites and Personnel's authority or pass on to the AEM/Authority Board for higher authorisation. The AEA Chief Executive tends to ask for advice from his strategy group (CESG) prior to discussion at AEM/Board level.

6.14. As part of the recent review of internal service provision, AEA has decided that estates should become a corporate service with effect from April 1992 (see Chapter 2) led by a Director of Estates whose job is now being defined. Each site will have a Site Manager who will have responsibility for managing some local services, including estates. He will also be the focus for liaison with planning authorities and the local community.

Professional resources and advice

6.15. AEA does not have qualified surveyors on its staff, either corporately or at local level. At corporate level it has taken advice on property matters from a leading national firm of property consultants, including in early 1991 submitting its corporate estates business strategy to a `health check'. At site level, advice on planning and development matters and local market conditions has been obtained from commercial estate agents and property consultants. Such organisations have been employed to dispose of property when required.

Estates costs

6.16. Table 6.4 shows budgeted costs for 1991/92 at the main AEA sites together with a simple analysis of unit costs. These figures suggest considerable variations in unit costs (£/sq metre). AEA said that it was difficult to draw conclusions from the differences in unit costs between sites because of the great variation in types of accommodation and activities. An alternative is to compare net cost of accommodation per head of AEA manpower after netting off external income at the site concerned. This parameter (shown in Table 6.4) is also considered by AEA to have shortcomings as far as comparisons are concerned. Although some exercises in this area have been carried out in the recent past geared to improving the internal charging process and encouraging best practice, no regular analysis and cross-site comparisons have been undertaken.

TABLE 6.4 **Budgeted estates expenditure, 1991/92**

	Harwell/ Culham	*Risley/ Springfields/ Culcheth*	*Winfrith*	*Dounreay*
Expenditure (£m)				
Interest and depreciation	4.7	3.3	1.6	1.0
Rates	3.4	1.3	1.2	0.9
Maintenance	7.4	2.3	2.4	3.0
Utilities	4.1	1.8	2.4	1.7
Management	0.9	0.4	0.3	0.2
Cleaning and waste	0.9	0.4	0.4	0.1
Other*	0.3	1.9	1.0	0.6
Total	21.7	11.4	9.3	7.5
Net building floorspace (1,000m^2)	219.5	98.1	99.0	97.8
Unit cost (£/sq m)	98.9	116.2	93.9	76.7
Net cost to AEA (£m)	19.5	8.4	9.1	7.4
Total AEA manpower	3,700	1,575	1,300	1,633
Cost/man (£'000)	5.3	5.3	7.0	4.5

Source: AEA and MMC from AEA data.

*Data network, telecom, post, external supplies. At Harwell/Culham data network only.

Property values and internal rents

6.17. AEA's property assets have not been revalued since 1 April 1986 save for routine updating in line with CCA indices. AEA acknowledged that its property assets should have been revalued within the five years since 1 April 1986, and that they were now unlikely to be revalued before the end of 1992. A recent broadbrush exercise carried out at Risley suggested that the market values of some property assets could be over twice CCA book values, though in some cases demolition or decommissioning costs would be required. A similar exercise at Harwell was complicated by the nuclear inheritance. Nevertheless some property values may exceed their book values. AEA advised us that this was less likely to be the case at Winfrith and Dounreay.

6.18. Internal charges for the use of AEA property reflect two principles, as do the charges set by sites to businesses for services generally: first, that charges are fair, and secondly, that sites do not make profits at the expense of businesses. In practice, for estates charges, this means that all costs incurred by sites in the provision of accommodation to businesses, less the income received from external tenants, are set to be recovered by rentals charged per net square metre of accommodation provided. Among the costs incurred, as well as rates, maintenance, utilities, etc, are depreciation and an interest charge set, currently, at 5 per cent of the CCA net book value of each site's land and building assets. The 5 per cent rate stems from HMT guidance on financing charges (see also paragraph 6.33). Technically, the interest charge produces a profit for sites over their annual budgeted costs but this has been deemed to be acceptable. There are two interesting side effects of these procedures. First, when profitable external rents are secured on a site, internal rents are reduced all round on that site. (However, in the case of a major lease at Risley, it has now been determined that, after the first two years, profit on the lease will be retained corporately and not used to offset other estates costs.) Secondly, if a building is written down in the books at year-end for any reason, subsequent internal rents for all property on the same site are reduced.

6.19. Internal rental rates have been described to us as comparing favourably with those of similar types of accommodation existing in the locality and Table 6.5 gives some broad-brush figures on how the pure rental element (ie including interest and depreciation but excluding repairs rates etc) of AEA internal rental charges for offices (in £/sq metre) compares with rentals of offices in the locality of the sites concerned.

TABLE 6.5 **Office rentals, 1991/92**

£/sq metre

	Pure AEA rental	*Local external rental*
Culham/Harwell	35	100-180
Winfrith	33	100-215
Risley	41	100-130
Dounreay	11	30

Source: AEA.

6.20. Table 6.6 shows more detailed estimates made by AEA of the make-up of the internal charges for office accommodation at Harwell and Risley. These charges are compared at each location with estimates made by AEA of the costs of erecting new premises or extending existing buildings on the sites and of local market rates for rents and services provision. This table suggests that, while basic rentals are low, charges for services are on the high side. AEA said that the figures for new build or market rent assumed a modern building designed to latest standards and building regulations. These could be considerably more energy-efficient and maintenance-free than 1950s and 1960s buildings such as some AEA properties, which also use older, less efficient utilities' infrastructures.

TABLE 6.6 **Comparison of rental charges and costs, 1991/92**

£/sq metre (net)

	Current offices	*Min New building*	*Max New building*	*Low Market rent*	*High Market rent*
Harwell					
Basic rental	35	105	229	108	183
Service charge	17	8	16	9	10
Other charges	103	64	90	65	83
Total accommodation charge	155	177	335	181	276
Risley					
Basic rental	35	97	177	75	139
Service charge	14	14	14	14	14
Other charges	94	51	67	53	54
Total accommodation charge	143	162	259	142	208

Source: AEA.

Notes:
1. Basic rental includes depreciation and interest.
2. Service charge includes management, grounds, cleaning and data network.
3. Other charges include maintenance, utilities and rates.
4. Totals may not sum due to rounding.

6.21. AEA also provided us with the information shown in Table 6.7 which shows the rents paid by significant external tenants compared with the rents that would have been charged to internal tenants occupying the same accommodation. The table shows that recently agreed external rentals are in excess of the equivalent internal rentals.

TABLE 6.7 **Rentals charged to external tenants, 1991/92**

	Tenant	*Net floor area (sq m)*	*Average rental (£/sq m)*	*Equivalent internal rental (£/sq m)*
Harwell	A*[		43	50
	B	*Figures*	72	59
	C	*omitted.*	129	60
		See note		
Risley	D†	*on page iv.*	43	35
	E†		32	27.5
	F]		97	35

Source: AEA.

*Rent review currently in progress.
†Leases due to expire within 12 months, rents likely to be substantially increased, if leases renewed.

Case studies of estates development

6.22. AEA made available to us three case studies illustrating recent, proposed and potential estates development. The studies cover:

- the move of CHQ from London to Harwell;
- the possible relocation of S&R from Culcheth to Risley; and
- the future of the Winfrith site.

CHQ relocation

6.23. It is AEA's objective to relocate a reduced and reorganised CHQ to existing offices on the Harwell site in May 1992. A review of the role, duties and location of CHQ was conducted during 1987/88, following reorganisation of the Authority in 1987. The Board agreed that, on the question of location, the optimum solution in the circumstances at the time was for CHQ to remain at Charles II Street. They also agreed that a refurbishment of the building should be carried out at a cost of some £4.5 million. In the event, this plan was not implemented both because of the practical difficulties of refurbishment with staff remaining in situ and because DEn had indicated that approval for the refurbishment was unlikely to be forthcoming. On DEn's advice, and with the aid of consultants, AEA sought a deal with developers which would achieve its accommodation objectives without the need for borrowing. A range of financial appraisals covering all options including staying at Charles II Street was reported to the Board in 1989. The Board agreed that AEA should pursue an offer to swap its existing leases for a new freehold property at Waterloo. This offer, and a subsequent similar deal, failed to materialise and in the light of this and other developments, notably the restructuring of AEA into a number of businesses, the senior management of AEA decided that CHQ should remain in Charles II Street in the short term and that the relocation issue should be reviewed at an appropriate point in the future. The expectation at that stage was that a move would probably take place in 1993/94.

6.24. At the end of 1989, a Steering Group on Site/Business Configuration (SGSC) was established to examine overall AEA strategy on the issue. SGSC endorsed a planning assumption that CHQ should relocate. There was also a clear view that co-location with an existing site presented benefits, both in qualitative terms associated with other changes in train in AEA and with respect to operating costs, although no formal cost benefit analysis of options was undertaken. At its meeting in April 1990, SGSC agreed that it should be assumed that the CHQ move would be to Harwell; that plans should be developed to work up that proposal in more detail; and that Harwell should take account in its plans of the need to accommodate CHQ. These considerations were reflected in a paper on the rationalisation of the AEA site configuration put to the Strategy Conference in May 1990. A key strand in the debate at the conference, which endorsed the proposed basis of planning, was the intention to move towards a much smaller core CHQ group (see Chapter 2).

6.25. Preliminary work on the relocation was carried out over the following months and the formal case seeking approval for Pre-Tender Sanctionable Expenditure (PTSE) for a new building was discussed at the September meeting of the Board. The conclusion was that, given the current financial pressures, AEA should not construct a new building for CHQ at that time but should examine lower cost options. These were set out in a paper put to the Board in November 1990, proposing use of an existing building at Harwell and seeking approval for the expenditure for the move. In addition, the paper included a summary of the proposed strategy for the disposal of Charles II Street which had been defined in liaison with consultants. The Board approved the choice of building and the expenditure and noted the strategy for disposal of the London premises.

6.26. Since mid-1990 the project has been developed against a background of sliding property prices. Nonetheless a deal to dispose of the lease of Charles II Street was concluded in October 1991. Estimates of project expenditure have been rising such that £7 million is expected to have been spent before realising £12 million from the sale of the Charles II Street lease at the end of 1992. AEA told us that one factor in the increasing cost estimates was the effect of the domestic house market on the sales of the properties of relocated staff.

The possible relocation of S&R from Culcheth to Risley

6.27. The Culcheth site covers 14.5 acres of potentially prime residential land adjoining Culcheth village. It is occupied by S&R in a 1950s construction extended by temporary buildings; accommodation is tight. The projected growth of S&R will exacerbate the current unsatisfactory situation. Options under consideration include moving into a new building on the Risley site, into refurbished accommodation on the Risley site (which would otherwise be leased out) and refurbishment of the Culcheth site either with good-quality prefabricated buildings or to a condition consistent with the long-term accommodation needs of S&R. In the former cases, the Culcheth site would be sold off for housing development, raising over £3 million. In this case study a range of possible options were considered and evaluated and two were short-listed for decision. The two short-listed options both involved low capital expenditure reflecting the need to minimise the impact on the EFL for 1992/1996. Net present values were defined for each option but did not include any allowance for enhanced values consequent upon capital expenditure. The AEM has recommended to the Board that one of the short-listed options be pursued.

The future of Winfrith site

6.28. A paper was prepared at Winfrith in early 1990 following the decision taken to close SGHWR in 1992. It considered three options for the future of the Winfrith site:

(a) to maintain three AEA businesses on the site;

(b) to reduce the site to a single business occupancy, D&R; or

(c) to confine activities to care and maintenance of the site's radioactive facilities.

At that time there were some 1,700 employees on the Winfrith site, consisting of 339 with the RS business, 157 with SGHWR, 137 with D&R, 113 with APS and some 1,000 site and service employees.

6.29. The review devised and evaluated a comprehensive plan to reduce services in line with businesses' expressed needs and their ability to pay. This plan would reduce the site organisation needed to service the three businesses to 400 staff once SGHWR ceased operation. The reduction in site services' cost would be from £30 million per annum to £20 million per annum. This option was evaluated in great detail and proposed as the preferred option by both businesses and site management.

6.30. The other two options were discussed but dismissed because:

(a) they would involve greater costs for site staff severance;

(b) they would involve great costs for relocating AEA business staff;

(c) the servicing of AEA business staff would still be required at an alternative location; and

(d) land and buildings realisations at the Winfrith site would not be substantial (less than £1 million).

For the three options the staff redundancy and relocation costs were estimated and are shown in Table 6.8.

TABLE 6.8 **Financial consequences of Winfrith options (1990 estimates)**

£ million

	Redundancy	*Relocation*	*Total*
(a) 3 businesses	28	-	28
(b) D&R only	39	5	44
(c) Care and maintenance	43	9	52

Source: AEA.

The costs of staff reductions consequential on the closure of SGHWR were included in all three options.

6.31. AEA later told us that the costs of moving employees from Winfrith would be of the order of £20 million to £30 million. In the face of such costs, site rationalisation, unless major property disposal or development was a consequence, was unlikely to be worthwhile. AEA said that its staff relocation costs were in line with Civil Service terms and conditions.

Discussion of case studies

6.32. The case studies served to illustrate two main factors which AEA said affected its approach to estates management and development: the cash position which influences decisions, emphasising disposals at the expense of development; and the costs of relocating staff (and of making staff redundant) which makes co-ordinated site rationalisation plans uneconomic.

Non-property assets

6.33. AEA has a minimum rate of return as its main financial target and told us that procedures relating to assets at all levels throughout AEA were geared to responding to this target. Non-property assets, such as computers, instruments, machine tools and research rigs and equipment, are under the custodianship of the relevant site (including CHQ). Sites maintain asset registers, recording such information as values, ages, depreciation rates and location. Over the last two years assets which are clearly in the use of a single business have been notionally allocated to the relevant business and from 1 April 1992 businesses will have their own balance sheets (see Chapter 5) of which non-property assets will form part. All assets are budgeted by sites or businesses, such that their use will generate income (internal or external) to cover all costs, including depreciation and an interest charge on CCA net book value of the asset concerned. Since the establishment of the trading fund on 1 April 1986 interest has been charged at 5 per cent. AEA said that this stemmed from HMT guidance on financing charges. At that time, the application of the 5 per cent rate produced figures which were larger than, but unrelated to, the real cost of long-term interest. For 1992/93 AEA is putting in place arrangements for charges to be made from the centre to sites and businesses at nearer the cost of AEA's borrowing.

6.34. At least once a year each asset (or group of assets) is subject to review to ascertain whether the budgeted income has been achieved, and shortfalls are subject to appropriate management action. In some cases adjustments to charging mechanisms (ie rentals) suffice, but serious shortfalls may require further measures. Options include disposal, replacement, and changes to operating procedures in the use of the asset or to marketing strategies in the hiring out of the asset. In the limit, the asset may be written down or written off. Since 1986 over £50 million has been written out of the AEA balance sheet, 50 per cent of which has related to plant and equipment.

6.35. AEA told us that these procedures generally worked well and that it was a manager's responsibility to ensure that all assets allocated to him made an economic return on their use. Cost reports were produced on major non-property assets and these included charges for CCA depreciation. We were not shown any routine management reports at business or site level that indicated whether non-property assets were earning an appropriate return on their value.

Conclusions and recommendations

Estates strategy, implementation and management

6.36. AEA told us that the main thrust of its estates strategy was to support the rest of the AEA business, while identifying land and buildings surplus to requirements and developing plans for their exploitation. Among the constraints which have limited potential development has been the AEA cash position, which has emphasised disposals at the expense of development. The high costs of relocating staff and of redundancy have made large-scale site rationalisation plans uneconomic. However, the proposal to vacate and dispose of Culcheth and relocate to neighbouring Risley is still being pursued. Overall, at the major sites, a 30 per cent reduction in manpower (see Chapter 8) has not been reflected in a commensurate surplus of property. Management of estates assets and associated services is undertaken primarily at individual site level with strategic issues being co-ordinated through machinery reporting to the Managing Director, Sites and Personnel. Estates strategy development and implementation have been progressed locally. There is no central provision for the analysis of operations across sites or the development of estates proposals which have corporate implications. With the move to the corporate provision of services, estates management will be co-ordinated by a Director of Estates, with strategy being steered by the CESG. We conclude that the move to greater corporate co-ordination is timely.

6.37. We recommend that:

(a) in moving to a corporate estates organisation, AEA should take the opportunity to develop further the corporate co-ordination of its estates management activities; and

(b) the corporate Director of Estates should have responsibilities which include the requirement to make regular reviews in consultation with the businesses of the potential for sites rationalisation and to produce a co-ordinated, rolling plan of property release for disposal and development into the future.

6.38. AEA has accumulated, on a site-by-site basis, cost and performance information in relation to the management of its property assets. The variation in the information between sites reflects, in part, differences in activities and types of accommodation. Further analysis may shed light on efficiency variations. We conclude that it would be beneficial if this information was subject to systematic analysis and review so as to encourage `best practice'.

6.39. We recommend that the responsibilities of the corporate Director of Estates should include the encouragement of `best practice' across sites and the comparison of costs between sites and with local market prices.

6.40. AEA acknowledged that it did not carry out a cost benefit analysis of options when the decision to relocate CHQ to Harwell was taken in early 1990. Earlier, in 1989, it had carried out a review of options for relocating CHQ within London which would not have incurred the expected £5 million plus staff relocation expenses. Later, in 1990, having made the decision to relocate to Harwell, various options for the relocation were evaluated against each other before deciding upon moving into existing buildings on the Harwell site. At this stage, however, no reappraisal was made of options avoiding a relocation out of London, for instance continuing to occupy Charles II Street or moving to smaller, cheaper premises in London whilst reducing the size of CHQ. The decision to relocate to Harwell will involve an expenditure of over £7 million before realising £12 million from the sale of the Charles II Street lease. AEA said that there had been a range of qualitative factors which supported its decision to relocate to Harwell and that it was under pressure from DEn to realise property sales income in 1992/93. We conclude that, whilst there may have been reasons for moving CHQ to Harwell, AEA would nevertheless have been wiser to have carried out detailed cost benefit analyses of all available options in support of this decision.

6.41. We recommend that AEA investment guidelines should be strictly followed in relation to estates projects and that these guidelines should be revised in line with our recommendation in paragraph 11.56.

Revaluation of property assets

6.42. AEA acknowledged that its property assets should have been revalued within the five years since April 1986, and that they were now unlikely to be revalued before the end of 1992. The asset book values, even including CCA adjustments, may bear little relationship to current market values or rebuilding costs. In some cases, and particularly at Risley and Harwell, the market values of some property assets could be over twice book values. Unless assets have been appropriately revalued, it is not clear how AEA can be sure of earning an appropriate rate of return on its physical capital. We conclude that AEA should revalue its property assets more regularly and frequently.

6.43. We recommend that AEA should revalue its land and buildings at least once in every five years. We understand that it is the intention of AEA to revalue all its properties in 1992, and we further recommend that consideration should be given to revaluing its property assets on a rolling basis thereafter.

Internal charging for the use of property assets

6.44. AEA told us that its internal charging mechanisms for property assets had led to internal rents which were significantly lower than local market rents and than those applied to external tenants on AEA sites. We conclude that these charging mechanisms have led to rents which do not sufficiently encourage the more efficient use of AEA's property assets.

6.45. We recommend that AEA should from April 1993 charge internal rents on the same basis as it would charge external tenants (that is market rates).

Use of non-property assets

6.46. AEA has long-standing procedures which should encourage the economic and efficient use of its non-property assets. However, there are no routine management reports at business and site level that confirm that this is the case. We conclude that AEA needs to determine on a regular basis whether it makes economic and efficient use of its assets.

6.47. We recommend that by April 1993 AEA should develop reports that enable each business and each site to demonstrate whether its major non-property assets are earning an appropriate return on their value.