

8 Management of the BWB estate

8.1. This chapter is concerned with the terms of reference in subparagraph 1(k)(i) and (ii) (see Appendix 1.1)-the scope for improvement in estate management by BWB and the effectiveness of its programme of rationalization of its low-value sites. The extent to which BWB's approach maximizes its return from selective sites is dealt with in Chapter 9.

The estate

8.2. BWB's estate consists of the waterways themselves and various docks, harbours, reservoirs, bridges, warehouses, repair yards, workshops and dwellings such as lock-keepers' cottages, all vested in BWB when it was set up under the 1962 Act. Some of these properties are surplus to present day operational requirements.

8.3. The estate is managed by Commercial Managers in the five regional offices (see Chapter 5 for details of BWB's organizational structure) who are all chartered surveyors. They are supported by some 60 professional staff of various disciplines and about 27 administrative staff. Each Commercial Manager provides professional support to his Regional Manager and to the Waterway Managers. BWB told us that the waterway unit is the focus of all activities. Waterways staff act as agents on the ground, and all are expected to follow BWB's agreed policy, which emanates from the Commercial Director at BWB's headquarters in Watford.

8.4. The estate is divided by BWB into operational and non-operational properties (property meaning land with or without buildings) which are defined as follows:

Operational properties are those deemed essential for the integrity of the waterways, that is property concerned with:

- (a) BWB's own offices (including Willow Grange), repair yards, sanitary stations etc;
- (b) pleasure craft bases;
- (c) operational housing (bridge, lock-keeper and water control housing);
- (d) wayleaves, easements and minor rights over land; and
- (e) water sales and discharge.

All other property is classified as non-operational. This is divided into:

- (f) all non-operational property not covered by (g), (h) and (i) below, including existing buildings used as public houses, restaurants and hotels;
- (g) new property acquired after 1 April 1990 by purchase or transfer from development property following refurbishment or redevelopment;
- (h) development property on which a management decision has been taken to develop within five years; and
- (i) disposal property-only used when a property is being sold and has reached exchange of contracts stage.

8.5. The procedure adopted by BWB for identifying non-operational properties is that the regional estates teams have an ongoing dialogue with their respective Waterway Managers to consider what is not required operationally. Should they not reach agreement, the Regional Manager will step in as arbiter. The aim of the estates team is to identify those properties which are not essential to the maintenance, management and running of the waterways. Within that context, the criteria must be flexible and cater for changes in the requirements of the operational estate, as well as changing opportunities for the properties if put to an alternative use. The Property and Development Manager at headquarters at Watford monitors the classification of property at a regional level.

8.6. We understand that all the BWB regions are currently in the course of completing a full review of the entire portfolio to re-evaluate the reasons for holding property whether operational or non-operational, to undertake any appropriate reclassification, and to highlight those properties which are available for disposal.

8.7. At the time of our inquiry BWB told us that the estate consisted of:

Operational properties	8,239
Non-operational properties	<u>7,097</u>
Total	<u>15,336</u>

Within these properties there were nearly 20,000 legal agreements in existence, comprising:

Operational property agreements	14,576
Non-operational property agreements	<u>5,406</u>
Total	<u>19,982</u>

In addition there were about 5,700 further agreements and wayleaves which were managed separately (approximate figures):

BWB as tenant	1,200
CEGB wayleaves	3,500
British Gas wayleaves	<u>1,000</u>
Total	<u>5,700</u>

There also exist a considerable number of arrangements with British Telecommunications plc, but data on these are difficult to obtain as they are covered by omnibus agreements between the old canal and railway companies.

8.8. The non-operational property portfolio of approximately 7,097 properties has a current (1992/93) income of £12.9 million a year generated by 5,406 agreements, or on average £2,385 per agreement. We were told that within these totals there are in excess of 600 properties classified as having development potential and more than 500 properties marked for early disposal.

Estate management

8.9. The operational estate is unique and the non-operational portfolio unusual in that property holdings are water-related. The current strategy upon which the management of BWB's property is based commenced with a valuation strategy and development report by property consultants in 1988. The strategy adopted and how it is integrated into the business is embodied in the Corporate Plan 1993 (see paragraphs 3.25 to 3.30).

8.10. The Commercial Director issued Commercial Policy Guidelines in October 1990 to all Regional Managers and their Commercial Managers. In the introduction to the guidelines he said that the following encapsulated what BWB was trying to achieve as a commercial business:

British Waterways is an integrated business with property and other assets. These assets provide the foundation and provision of future income to fund British Waterways activities. Therefore by efficient and active management we shall secure not only increased rental income but sound capital growth through restructuring, redevelopment, disposal and reinvestment. This will ensure that we maximise the return on our land, property and use our leisure assets to enable the full

commercial and environmental potential of the business of British Waterways to be achieved and sustained.

8.11. The main text of the policy guidelines (but with only one of its appendices) is at Appendix 8.1. Its aim is to maximize proceeds from disposals of land and buildings, and revenue from existing businesses, and develop new businesses. A four-year property strategy commenced on 1 April 1989. A new reference manual of procedures was issued in draft in February 1993 and this sets out guidelines covering all aspects of estate management, and ensures consistency of approach throughout the regions.

8.12. As stated in paragraph 8.3, primary responsibility for estate management falls to the regional Commercial Managers, using local waterways staff as their eyes and ears, and referring to headquarters matters of policy and strategy. However, maintenance of the operational waterways and associated structures is the primary responsibility of the Waterway Manager supported by the Regional Engineering Manager and Headquarters Engineering Department. The Commercial Managers support the Waterway Manager in the provision and maintenance of operational buildings and in the maintenance and development of the non-operational property. The waterway units are required as a matter of policy to plan for the achievement of set building standards. The efficiency of BWB's maintenance programme is considered in Chapter 11. Examples of significant waterway maintenance projects which took place recently and mentioned in BWB's Report and Accounts for 1992/93 are:

- (a) *Maida Hill Tunnel-Regents Canal*. Work was undertaken to stabilize the retaining walls of the western portal of the tunnel, rebuilding the canal bed, and installing safety features. Project cost to date £390,000 (1992/93 £300,000).
- (b) *Wrenbury Lift Bridge-Llangollen*. A timber lift bridge was replaced by one with a steel deck which replicates the original but can carry normal highway loads. Project cost to date £360,000 (1992/93 £300,000).
- (c) *Anchor Lock-Leeds & Liverpool Canal*. The lock gates have been replaced and the lock walls rebuilt. Project cost £160,000 (1992/93 £140,000). A case study on this project is at Appendix 11.17.

8.13. We viewed a number of BWB waterways and other assets including the Gas Street Basin in Birmingham, Gloucester Docks, sites on the Aire & Calder Canal near Leeds, Llangollen Viaduct in Wales, parts of the Forth & Clyde and Union Canals, and much of the Caledonian Canal in Scotland. On these visits we viewed numerous properties including those in a poor state and those newly developed or redeveloped.

Property Management System

8.14. A computer PMS, based on an Ordnance Survey map book, covers the vast majority of the estate and is a database of property information-see also paragraphs 7.45 to 7.58. The system is accessible to headquarters and to regional and local waterway staff, subject to authorization codes. It is unlike other commercial systems such as those used by property companies and agents, due principally to the unique nature of the estate, and has certain differences if thus compared. For example:

- (a) The system is based on an Ordnance Survey map and book, appropriately cross-referenced. The next step, which would be expensive, would be to transfer the map book to a digital mapping system integrated into the computer system.
- (b) Insurance of buildings is dealt with separately as BWB only insures a small number of properties (Government guidelines generally require BWB to self-insure and generally non-operational properties are insured by the tenant and not BWB).
- (c) The system contains little accountancy data but is interfaced with other systems giving this information (accounts payable, invoicing, cash book general ledger) under the control of the Regional Finance Managers.
- (d) The reporting capabilities have, in the light of experience and growth of user demand, proved inadequate.

BWB told us that a new system utilizing computer-aided software engineering is due to come on line in April 1994.

Revaluation of assets

8.15. Regular revaluation of assets allows up-to-date assessment of property returns and disposal proceeds, and assists in the correct identification of low-value properties. All property (except the waterways and reservoirs and associated structures which are required to perform BWB's statutory functions) are revalued externally in a five-yearly cycle, with sample reviews being carried out in the interim, mainly internally. BWB told us that external valuers have been appointed to undertake a full revaluation of BWB property assets in March 1994, updated annually for a five-year term. The operational estate (except as mentioned above) is valued for management purposes to open market value for existing use, and alternative use values are identified where material.

Property disposals

8.16. BWB emphasized that disposal targets were not imposed upon it, but arose from its strategy of improving the quality of its property portfolio, its relevance to current business requirements, to reducing its management costs and to providing capital receipts for investment in projects which would generate improvements and add value to the business. A large number of property disposals occur each year including 'low-value' sites and 'de minimis' disposals. BWB said that it has been unable to accelerate this programme of disposal because of:

- (a) adverse market conditions;
- (b) the need to utilize available staff elsewhere;
- (c) not wishing to be seen as a 'forced seller' and depressing sale proceeds;
- (d) an inability to 'package' a number of properties together for a single sale as there is no market for such packages, except perhaps at large discounts; and
- (e) a significant number of special purchasers requiring 'one-off' negotiations, who need personal attention.

BWB told us that catalogues of properties were the subject of two successful auctions held on 27 March 1991 and 6 May 1992, but no more major catalogue auctions were currently planned, although individual properties continue to be auctioned where BWB considered it appropriate.

8.17. In the last two years some 200 to 300 such properties had been sold. BWB's Corporate Plan 1993 calls for disposing of about 75 per cent of its portfolio earning less than 8 per cent return (as at August 1991) by 1996/97. BWB said that it involved estate agents and valuers quite extensively in the marketing of these properties. All of the regions had, over the last 12 months, been looking at every one of their properties at a waterway level and in the business round BWB was about to enter, its business plans would identify those properties which they believed were surplus to their future requirements, and the best strategy for dealing with them quickly.

8.18. The private sector could do some of the major rent reviews, and indeed BWB already uses them in this way. But BWB said that in discussions with national and regional agents in the last 12 to 18 months, BWB staff have been told that the management of small-value estates is costly and time-consuming, and would be very expensive if contracted out, but that when the portfolio is of better quality, then it might be worth putting out to tender.

Low-value sites

8.19. We are asked in the terms of reference to look at the effectiveness of BWB's programme of rationalization of its low-value sites. BWB told us that it has a range of criteria, which are constantly reviewed, against which it defines a low-value site.

8.20. The Commercial Policy Guidelines of October 1990 contained a four-year strategy that required a sales programme of non-operational residential property and review and sale of selected properties of less than £50,000 capital value. This followed strategic advice from BWB's previous property consultants who concluded that properties having a value of less than £5,000 should definitely be sold and also the majority of those valued at below £50,000. BWB regards this latter figure as the appropriate one to use alongside the other bench-marks mentioned above.

8.21. Low-value sites are usually costly to manage and also difficult to sell; often there is only one possible buyer who owns adjacent land. Many BWB tenants are special purchasers. Where they are potentially the only users of the property, they are usually paying a rent which reflects a very low yield compared with the capital value they might be prepared to pay to become owners of the property.

De minimis disposals and agreements

8.22. BWB has significant freedom to deal with property disposals from the non-operational portfolio where values do not exceed £30,000 in the South East Region, or £20,000 elsewhere. Since 1990/91 these have been termed *de minimis* disposals. The analysis of disposals generally over the last three financial years reveals the following:

TABLE 8.1 **Property disposals, 1990 to 1993**

	1990/91	1991/92	1992/93
Proceeds from disposals (£)	2,712,000	7,285,000	4,379,000
comprising:			
(a) <i>De minimis</i> disposals (£)	29,000	564,000	631,000
Number of transactions	12	81	81
Average <i>de minimis</i> lot (£)	2,416	6,963	7,790
(b) Other disposals (£)	2,683,000	6,721,000	3,748,000
Number of transactions	21	83	98
Average lot (£)	127,762	80,975	38,245

Source: BWB.

Rental income for the financial year 1992/93 from these agreements was £1.7 million. However, BWB told us that this masks the true value of such agreements where it has historically negotiated single premium payments rather than rents. In the years 1990/91, 1991/92 and 1992/93 operational premia income of £5 million in total was received by BWB. *De minimis* rental transactions, though not defined in the same manner as capital transactions, are numerous, as revealed by the figures in paragraph 8.8.

8.23. The cost of management of some agreements exceeds the income from them and this problem is being tackled in a number of ways. Low-value rental transactions, particularly negotiation and collection of wayleave rentals, absorb a considerable amount of staff time for little return. Capital sales do of course remove ongoing management problems. BWB told us that it continued to use every endeavour to dispose of low-value sites at the best prices obtainable. BWB is seeking to improve performance by a variety of methods including:

- (a) increasing rentals to more economic levels;
- (b) doing bulk deals with the statutory undertakings in respect of a multiplicity of wayleave agreements;
- (c) indexing wayleave rentals, to increase sums collected each year; and

(d) collecting rentals in advance for extended periods of perhaps five years.

8.24. It is questionable whether it is cost-effective to negotiate and collect the smaller rental sums. If such reviews and negotiations were put out to the private sector for negotiation and agreement, it is probable that a minimum fee would be required of, say, £500 a transaction if a series of instructions were issued, or perhaps £1,000 a transaction on a one-off basis. Many surveyors in the private sector would not wish to take on instructions for rental transactions below £5,000 per annum. It is not possible, however, just to abandon these smaller wayleaves. The wayleaves need to be negotiated to ensure that BWB has full control of its assets, and that they conform with BWB's requirements to maintain, manage and develop its property.

Conclusions

8.25. We consider that the estate in general is properly and efficiently managed on a day-to-day basis. However, that part of the estate which has been developed or identified for possible development is dealt with in Chapter 9.

8.26. We conclude that BWB's programme for disposal of low-value sites has made rather slow progress. We recognize that the market has been unfavourable and that disposal is time-consuming but BWB should now increase its efforts to reduce these sites to more manageable numbers, allowing it to concentrate on its income-generating properties.

Recommendation

8.27. We recommend that within the next five years BWB should aim to dispose of all its low-value sites which are unlikely to play a significant role in future developments and are not required for access, using local estate agents as necessary.