Report by the
Comptroller and Auditor General

Highways Agency

Getting best value from the disposal of property

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Executive summary

1 Over the past five years (1994-95 to 1998-99) the Highways Agency has raised £238 million in proceeds from the disposal of land and buildings. This property, most of it residential, was acquired for planned road schemes. Some of the property was sold because, although affected by the road scheme, it was not needed for the actual construction of the road. In other cases property became surplus because road schemes were cancelled. Disposals peaked at around £65 million in 1997-98.

2 When the Committee of Public Accounts considered our previous report on "Acquisition, Management and Disposal of Land and Property Purchased for Road Construction" (HC 492, Session 1993-94, June 1994), disposals had been at a level of only £10 million in 1992-93 and £19 million in 1993-94, in relation to acquisitions of over £170 million (all at 1999 prices). In its report (HC 43, Session 1994-95) the Committee did not therefore comment directly on the proceeds of disposal, though it did recommend that the Agency should set clear targets for the disposal of surplus properties, and should do more to sell or let vacant properties for social housing.

3 In view of the recent high level of sales, this report looks at whether the Agency has achieved best value from disposals of property. This is partly a matter of the way in which prices have been set and sales have been concluded. But it also includes the way in which properties have been looked after during the period, averaging four years, for which they will have been in the Agency's ownership.

4 We found that, since 1994-95, on disposal the Agency had on average obtained 68 per cent of the price it had paid for properties, after taking inflation into account; a fall in value of 32 per cent. For properties affected by a road scheme but not needed for construction, the average fall in value was 42 per cent, at least partly reflecting the actual impairment caused by the road. However, three quarters of recent disposals have been the result of scheme cancellations, where the threat of roadbuilding and the extent of blight will have greatly diminished. But even in these cases the average fall in property values was 27 per cent, perhaps partly reflecting buyers' fears that road plans may be reinstated.

5 We found that the loss in value tends to increase with the length of time that properties have been held by the Agency, increasing to 37 per cent after ten years. Some of this loss in value on resale may reflect the way in which properties have been looked after while in the Agency's ownership.

6 Where properties were originally intended for demolition, they may not have been judged worth repairing, so some deterioration might be expected. However, 80 per cent of the properties purchased since 1970 have either been sold or are still in management. For many properties, therefore, demolition is by no means inevitable and protection of the property to secure rental income and preserve capital value should be an important factor in their management.

7 We found evidence that some property has deteriorated while in the Agency's ownership, and that this adversely affected capital values. We found no difference between the loss in value on sale for those properties more likely to be demolished, and the loss for those always likely to be resold (because they were not essential to road construction), suggesting that the Agency could do more to differentiate between these two classes of property.

8 Aspects of management relevant to the protection of property values include adequate maintenance, maximising occupancy, and effective security. The Agency's guidance emphasised the need to balance maintenance costs against prospective rental income from properties but, as a result of our examination, the Agency agreed that its guidance on maintaining capital value needed to be clearer. Better records of the condition of properties would also have permitted closer monitoring of their state of repair. The Agency undertook a review of all aspects of property management in 1997, and in November 1997 began to tighten its controls over maintenance.

9 Occupancy has fallen back somewhat from a peak of 80 per cent in 1996, and overall occupancy targets have been missed, although in 1999 the Agency has significantly reduced the percentage of habitable properties unoccupied for more than six months. The decline in occupancy is attributed to the increased number of properties declared surplus and held vacant awaiting sale, though the Agency has in some cases managed this problem by phasing sales. The Agency was generally well-informed about threats to the security of its properties, and was responding to them. In exceptional cases excessive security costs may be avoided by demolishing buildings in advance of need. In one case, however, 200 houses in habitable condition were demolished without a written business case, though the road scheme was subsequently cancelled.

10 The methods used to sell properties were generally effective in securing market value. There was significant regional variation in estate agency fees, and probably some scope for greater use of competitive tendering in appointing estate agents. Properties are still taking some time to sell once declared surplus, which contributes to the problem of unoccupied property. There has been an increase in the average time taken to sell properties, from 20 months in 1994-95 to nearly 27 months in 1998-99. Progress towards faster disposals has been slowed by the large amount of property released by cancellations and waiting to be sold.

Recommendations

11 Our main conclusion was that more could be done to safeguard the value of properties owned by the Agency. The following recommendations are directed at the Agency although in practice they might be implemented by agents.

Repairs and maintenance

a) The Agency needs better management information to differentiate between properties which it expects to be sold and those likely to be demolished (paragraph 2.11);

b) the Agency should review and update its repairs and maintenance guidance to take clearer account of the fact that the Agency's properties are more likely to be sold than demolished (paragraph 3.7);

c) the Agency should seek advice from its property advisers in cases where the costs of major repairs may not be recovered through forecast rental income, to see whether the repair may have a beneficial impact on the resale value of properties (paragraph 3.8);

d) the Agency should ensure that its information systems include a reliable record of the condition of its property, from acquisition to disposal, for the purposes of management and analysis (paragraph 3.10);

e) the Agency should press ahead with its plans for an improved maintenance programme, particularly for those properties where the future of the scheme is uncertain and there is no imminent date for the start of road construction (paragraph 3.13);

f) the Agency should ensure that individual property files include a sound cumulative repairs record (paragraph 3.14).

Maximising occupancy

g) The Agency should consider phasing sales more often following the cancellation of large schemes, so as to retain more tenants in properties for longer before eventual marketing and sale (paragraph 3.21).

Demolition as an alternative to security measures

h) The Agency should introduce a requirement to obtain approval on the basis of a written business case for all demolitions which are to take place before the main construction contract is let, to ensure that demolition is fully justified (paragraph 3.28).

Maximising sale proceeds

i) The Agency should document the business case underpinning decisions to go to auction and the key steps taken in the auction itself. Such decisions should take explicit account of the financial implications of auction rather than private treaty sale (paragraph 4.9).

Minimising disposal costs

) The Agency should explore variations in regional practices and costs for sales management services, estate agent fees, and the use of competitive tendering by some District Valuers to select estate agents, with a view to setting benchmarks for savings and improved service (paragraph 4.14).

Time taken to sell surplus properties

k) The Agency should monitor and review its performance in selling vacant residential properties, to bring the time taken to nearer to the Treasury guideline of achieving disposal within six months of gaining vacant possession (paragraph 4.19);

l) the Agency should evaluate its disposal performance against key performance indicators, which are not at present produced routinely (paragraph 4.20 and Figure 22).