



Bringing You the Power of One™

A large, red excavator bucket is shown in a close-up, angled view, holding a piece of grey rock. The bucket is set against a dark, textured background that looks like a large sheet of black plastic or a similar material. The lighting highlights the metallic surfaces and the texture of the rock.

The Authority

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With the abolition of regional development agencies, there is a great deal of expectation on local authorities to provide leadership in regeneration and development.

The need is great. The downturn has had a devastating impact on the development and construction industries. A reinvigoration of these sectors is needed to drive recovery. We need the commercial activity and we need more homes.

Changes over several years mean authorities can respond to the challenge. Importantly, these include: the introduction of the 'well-being' authority which has taken away vires concerns; and relaxation to the capital finance regulations which has allowed borrowing and more freedom for corporate subsidiary activity.

Some authorities are responding with strong development teams. Despite the pressures for savings, we would strongly argue that now is not the time to cut costs in this important area. Market conditions are challenging but if anything this further underlines the need for leadership.

In this issue we highlight emerging initiatives including Enterprise Zones and Tax Increment Financing together with more established routes to delivery including development partnerships. More than ever, the right commercial strategy is vital.

I trust you will find this interesting and would be pleased to receive your feedback.



Andrew Smith
Head of Local Authorities
+44 (0)113 233 7306
andrew.tc.smith@dtz.com

Tax Increment Financing (TIF)

Currently at the consultation stage, TIFs will require and be subject to, primary legislation. The recently published CLG Enterprise Zone Prospectus indicates the legislation will be in place by April 2013, at the latest.

Whilst undoubtedly a welcome concept, evidenced by the scale of debate and representations made during the ongoing consultation from a wide range of public and private sector bodies, it is still too early to discern whether TIFs will have the necessary scope to deliver and help sustain regeneration and local economic growth. TIF models have been tried and tested in the US for over five decades with varying degrees of success. However, the federal taxation structure provides a very different context for their use compared with the UK.

Whilst it's not appropriate to prejudge the outcome of the consultation or indeed what may eventually be enacted, several thoughts/concerns initially come to mind:

- As TIF enables borrowing against future increases in business rate receipts to help fund development of infrastructure, clear guidance will be required over how 'additionality' is quantified and whether for instance receipts will include empty rates
- How is infrastructure to be defined and will it extend to allow authorities to directly develop property using TIF funds?
- How will TIFs be prioritised to ensure that areas with greatest need don't lose out to those where the 'but for' circumstances aren't nearly as

evident and where lenders perceive significantly less risk?

- What associated measures will be put in place to mitigate displacement?
- TIFs for long term projects will require cross party political support
- In areas suffering from the greatest economic and social challenges, quantifying, let alone, raising finance on the future increase in business rates, may prove very difficult indeed. To this end should the government allow authorities in certain designated areas to capture business rates from existing assets (operational and investment) to provide further security? In the absence of this it may prove very difficult to derive any benefit whatsoever from TIF arrangements ironically in those areas with greatest need
- Where infrastructure investment benefits neighbouring authorities, but is predominantly, if not entirely, located in one, what arrangement will be put in place for an equitable sharing of the funding costs?

Inevitably the devil will be in the detail, but the concept remains sound. In subsequent editions we will track, test and scrutinise emerging developments and focus on the practical application of TIFs as a means for underpinning delivery and providing economic stimulus. ■



Keith Hardman
+44 (0)113 233 7334
keith.hardman@dtz.com

Case study Wylfa



Wylfa on the Isle of Anglesey has been identified as one of the potential nuclear new build locations. In order to ensure that the benefits from the proposed development were maximised, and the potential negative impacts were mitigated against, the council commissioned DTZ, in association with AECOM, to undertake research into the likely accommodation requirements of the construction workers.

The commission involved the preparation of a robust evidence base, including determining the potential demand for accommodation over the construction period, identification of a series of options to respond to this demand and their assessment. Once the preferred option was agreed, a position statement was prepared which set out the council's aspirations for accommodating the construction workers and actions required to support the delivery of the preferred option.

This commission has provided DTZ with considerable insight into an issue a number of local authorities are currently grappling and has identified some potential interesting delivery mechanisms. ■



Caroline Baker
+44 (0)161 235 7654
caroline.baker@dtz.com

Regional Growth Fund – round 2



One of the coalition government's new initiatives – the Regional Growth Fund – is now underway with £450m of funding having recently been awarded to projects from the first round of bidding.

Round 2 of the fund opened on 12 April 2011 and will close at noon on 1 July 2011. This provides an opportunity for public and private sector organisations to bid for the remainder of the fund – approximately £950m.

The Regional Growth Fund (RGF) is a discretionary fund that is operating over three years between 2011 and 2014 to support projects that will secure private sector led economic growth and employment across England.

The emphasis is on targeting private sector businesses with employment growth potential. For private sector and public/private sector partnerships with schemes that can deliver new jobs,

RGF may provide a route to securing government funding. However, as with all government funding regimes, there is a long list of assessment and eligibility criteria including State Aid compliance and advice may be required to determine whether a proposed scheme could qualify.

The principle criteria for projects are:

- **Project location** – the emphasis is on those areas that are currently dependent on public sector employment and in particular Assisted Areas (details of which are available at <http://www.bis.gov.uk/policies/economic-development/assisted-areas>)
- **Additionality** – support is only available for projects that would not happen in the absence of RGF
- **Sustainable private sector growth** – projects must generate new private sector jobs
- **Value money** – projects should demonstrate good value for money
- **State Aid compliance** – proposals must be compatible with EU State Aid rules.

Round 1 of the funding was characterised by a diverse range of projects and whilst the majority of those that have been successful appear to be occupiers with the ability to directly generate new employment opportunities, there were some property and housing schemes with the likes of Muse Developments, Bruntwood and Keepmoat Homes having enjoyed successful bids. In addition, although it was intended to target businesses, there were examples of some local authorities having bid successfully including Wakefield Council and Doncaster Council. This demonstrates a degree of flexibility in the fund and if there are organisations with schemes that can deliver new jobs, it is worth considering making a bid under round 2.

DTZ assists public and private sector organisations with round 2 bids through:

- Assessing project eligibility
- Project development and planning
- Market assessment
- Assessment of a project's 'strategic fit' within city region strategy
- Economic impact analysis
- Financial planning and analysis
- Completion of RGF application form and liaison with partners
- State Aid compatibility, and
- Project delivery. ■



Stephen Miles
+44 (0)113 233 7471
stephen.miles@dtz.com

Enterprise Zones are back

... but they're not clones of the 80s models, or so it would seem.

In the March Budget, the Chancellor announced the creation of 21 new Enterprise Zones (EZs) in England. To date, 11 Local Enterprise Partnerships (LEPs) have each been allocated a single zone and site proposals have been invited. For those LEPs not included in the initial 11, proposals are invited for a further 10 zones.

Enterprise Zones, first established in the early 1980's, were designed to promote growth and economic activity through a combination of fiscal and planning relaxations and measures. Amongst others they included Speke, Salford, Trafford, Dudley and London Docklands. Many of the principles and objectives for the recently announced zones remain the same, but there are some notable differences. Four zones have been identified already, they include Manchester-Airport City; Liverpool and Wirral Waters; Boots Campus, Nottingham; and Royal Docks, London.

The government is keen to learn from past experience and their approach to the new generation of EZs has four core objectives:

- i. Opportunity** – focusing on areas of genuine economic opportunity to maximise benefits for the wider economic area (economic 'opportunity' not 'need', a subtle but important difference from the 80's version)
- ii. Long term viability** – using the LEPs as a conduit for the long term success of the area
- iii. Strategic fit** – LEPs are to have a key role in developing and implementing EZs with a menu of options to suit

local circumstances i.e. not a 'one size fits all' approach (a feature of the previous models)

- iv. Minimising displacement** – the government is keen to avoid localised competition and local displacement – with LEPs to have a role in targeting business growth by identifying priority sectors (ie less of a 'free for all' approach for which the 80s versions were commonly criticised).

Initial CLG guidance in their Enterprise Zone prospectus indicates the following criteria and benefits/incentives to be offered within each EZ:

- Individual zones are to be between 50 and 150 hectares
- EZs will generally be based on clean sites with few, if any, existing business occupiers
- Land will include that in both public and private ownership and this might include former RDA or other central government assets (to be transferred at market price)
- Business rate discount of up to £55,000 per annum per 'business' for a five year period (businesses in the 80s EZs benefitted from zero rates irrespective of scale, for 10 years)
- Business rates growth within the zone to be retained by the LEP for at least 25 years, with revenue generated to be re-invested locally
- Simplified planning regime through for example, use of Local Development Orders
- Government support for super fast broadband.

Government is also to work with LEPs on additional options/incentives specific to each location to include consideration of:

- Enhanced capital allowances for plant and machinery in a limited number of cases subject to State Aid, where there is a strong focus on manufacturing (State Aid in the form we know today, didn't exist in the 80s and this will have a bearing on the scale of incentives available. Some of the most significant attractions to private investors/funders in the early versions were the generous capital and income allowances. As a result investors were prepared to accept yields which were somewhat lower than for comparable investments outside the zones – a feature which greatly helped development feasibility)
- Tax Increment Finance (TIF) to support long term viability
- UKTI support for inward investment.

For the initial 11 LEPs invited to host EZs ('the first wave'), the government is proposing to agree the detail of EZs and policy packages with each by summer this year. Local authorities are to have the power to discount business rates for specific businesses within the designated EZs by April 2012 and in the following year the Government hopes to confirm new funding arrangements available for local authorities, allowing them to retain business rates to deliver TIF schemes, and to develop infrastructure in support of EZs.

Proposals for the second wave of EZs are currently being invited with an announcement on successful bids due in July 2011. Whilst not specified in the CLG EZ prospectus, we would expect proposals for the discounting of business rates and refunding regimes due in 2012 and 2013, to apply similarly to the second wave of zones.



Birmingham, UK

It is clear that the government is keen to apply lessons learnt from past experiences and wishes to see through the designation of the 21 EZs, a focus on opportunity for economic growth and not explicitly need. How this translates in practice remains to be seen, although the four EZs announced to date appear to indicate the steer is very much towards opportunity. The awaited proposals around funding regimes and other incentives will provide a better indication of the degree to which the zones will succeed and will be of key importance. State Aid considerations bring their limitations, evidenced in part by the threshold for business rates exemptions. The extent to which they may also constrain investor/funder incentives will be significant and one where TIFs alone may not provide the antidote. Certainly the use of Local Development Orders gives local authorities the opportunity to

exert a greater degree of planning control which should ease some concerns over impact on neighbouring areas and displacement.

On balance EZs appear a welcome development, as ever, subject to the detail – watch this space... ■



Keith Hardman
+44 (0)113 233 7334
keith.hardman@dtz.com



Jonathan Turner
+44 (0)121 697 7372
jonathan.d.turner@dtz.com

Latest...

- DTZ has been advising Kent County Council and the Sandwich Economic Development Task Force on the establishment of an Enterprise Zone on the Pfizer site at Sandwich.
- DTZ has been advising Birmingham and Solihull LEP/ Birmingham City Council on their Enterprise Zone covering Birmingham City Centre.

Compulsory Purchase – matters of timing



When considering the use of a compulsory purchase order (CPO) for site assembly, acquiring authorities and developers will frequently ask how this convoluted process can fit into their development programme. This can be assessed by considering the three phases of the CPO process: preparation, obtaining powers and implementation.

Preparing an Order

If supporting planning policy is in place (which is vital to any planning-based CPO), a CPO should typically take between three and six months to prepare. This might be accelerated for simpler schemes and extended up to 12 months for complex town centre schemes involving a large number of interests.

Key tasks will include: referencing the land to be acquired (including statutory requisitions of information from landowners); preparing an accurate Compensation Estimate; and drafting the Order itself. The Order will be accompanied by a written Statement of Reasons making the case for the application of CPO powers - setting out the benefits of the scheme, why these can't be achieved other than through interference with private property rights and what efforts have been made to acquire the required property interests

by agreement. The CPO is then formally 'made' by the council and notice of such published and served on all affected landowners and the Order sent to the appropriate Secretary of State for confirmation.

Obtaining Powers

Once the Order is made, timescales are largely out of the acquiring authority's hands, with only the 21-day minimum objection period following publication of the Order laid down by law. If objections are made and not subsequently withdrawn, the Secretary of State will ask the Planning Inspectorate to convene a public inquiry. An inquiry should commence within 22 weeks of the end of the objection period and typically starts within three months, seldom before, but often later, depending upon the inspectorate's workload, intervening holiday periods and the disposability of the parties.

The duration of a CPO inquiry is usually counted in days rather than weeks unless the scheme is particularly controversial or there are a large number of outstanding objections.

Following an inquiry, the inspector will report his recommendations to the Secretary of State, who will then decide

to confirm; confirm with amendments; or decline to confirm the CPO. A decision might be expected within three to six months of the close of the inquiry, although it has been known for political considerations to intrude upon these timescales.

Implementing an Order

Once the Secretary of State confirms the CPO, the acquiring authority has CPO powers and may take possession of the land; but it will normally wait for the six week period for statutory challenge of the Secretary of State's decision to elapse first.

At last able to take possession, the acquiring authority can implement its powers in two ways: by vesting ownership and possession (a General Vesting Declaration) on a notified day, which must be at least three months after the confirmation of the Order and no more than three years; or by serving a notice to treat and giving at least 14 days' notice of entry. In the latter case the notice to treat may be served at the end of the three year period and notice of entry can be delayed for up to a further three years, giving the CPO an effective life of six years. While still demanding its commitment to take the land and pay compensation, this affords an acquiring authority potentially valuable flexibility in these uncertain economic times.

However, acquiring authorities should not underestimate the degree of resentment and feeling of unfairness such delays can engender in affected parties, many of whom may well suffer from differing degrees and types of blight for which they may never receive full recompense. Managing the public relations is vital to the process. ■



John Davies
+44 (0)20 3296 4380
john.davies@dtz.com

Local authorities could be hit by reverters clause

In the wake of the largest public sector spending cuts since World War II, many local authorities are considering selling public buildings such as libraries, schools and museums in order to make efficiency savings and generate extra capital. However, what many councils may not be aware of is that they risk falling foul of an ancient law which could see the land, or any profits made from its sale, taken away from them.

Back in the nineteenth century the Schools Sites Act 1841-1852, Literary and Scientific Institutions Act 1854, and the Places of Worship Sites Act 1873 were designed to encourage wealthy individuals to gift land for charitable purposes which would benefit the wider community, such as for the purpose of schools, museums and libraries.

However, there was one specific stipulation set by the benefactors: should the land cease to be used for the purposes specified at the time of granting it, a reverter clause would kick in, meaning the land must be transferred back to its original owner.

It is estimated that some 2,000 schools alone were built with the help of the School Sites Acts, and in addition to those, there are many more museums, libraries and places of worship.

If the land is subject to the reverter clause and ceases to be used for its original purpose, and it is either sold or leased to a third party for another use, the net proceeds of the sale or rent have to be returned to the original owner or the living descendants. In many cases, the length of time that has elapsed since the granting of the land might mean that no descendants can be traced. In this case, the Charity Commission and the Secretary of State have the authority to set up a trust to take care of any proceeds in the eventuality that these individuals are located, and in the meantime use the money for the benefit of that trust.

With a number of local authorities considering disposing of community amenities to streamline their property portfolio, the question now is whether these amenities are built on granted land under these Acts.

A landmark House of Lords case in 2005 won by genealogist firm, Fraser and Fraser, illustrates that the clause is as significant today as it was in the nineteenth century. The case involved a deed dated April 1866, which set up a school to educate the poor in the St Philip's parish in Canterbury, Kent.

Upon investigating the deeds of the property, it was discovered they contained the reverter clause in accordance with the School Sites Act 1841 which stated that the land be returned to the original donors if the school closed. The Church of England was forced to pay back the proceeds of the sale to the descendants of the landowner who donated the land almost 140 years before.

This case illustrates the significance of the reverter clause today, particularly in light of spending cuts. Local authorities are at risk of losing any funds generated from a sale or rent.

We would therefore urge any councils considering selling or changing the use of public buildings in their estate to seek professional advice and importantly, to do their research. Whilst the widespread practice of selling school, museums, libraries, and places of worship sites could derive revenue savings, from a capital perspective, it could prove to be a costly mistake. ■



Rebekah Formosa
+44 (0)117 910 5276
rebekah.formosa@dtz.com



The Affordable Rent game – will you be playing?

Let me lay my cards on the table. I believe this country urgently needs more affordable housing to house people on low incomes. Levels of housing need are likely to rise over the next few years. In this context, a reduction in the public funds available for affordable housing of around 62% presents a huge challenge.

The Affordable Rent programme is the government's response; its target to build as many new affordable homes over the next four years as have been built over the last 3 years, despite the reduction in public funding.

Is this possible? Will it work? What stance should local authorities take with respect to the Affordable Rent programme? Reluctant participation? Outright opposition? Foot-dragging in the hope that something better will turn up? Enthusiastic endorsement? Hard headed determination to make it work to the benefit of local people? It will perhaps be no surprise that I would urge local authorities to take the approach of constructive engagement. Work with your Registered Providers (RP) and the HCA to get a solution that works in your area, and reflects your priorities.

Is such an approach practicable? To be sure, lots of people are asking 'will it work?' But the key issue people forget in asking this question is that 'it' has not yet been defined. Yes, we know the basic framework: higher rents to support increased Registered Provider borrowings, not just on new properties but some

relets; a smattering of grant; some use of RP reserves; and maybe some use of public land and financial support from local authorities.

But authorities should remember that they are key partners in this delivery process. The Government is going big on localism – recognising that local authorities should be empowered to set their own priorities, not dictated to by central government. The HCA is making a big play on working with local authorities in securing the delivery of the National Affordable Housing Programme. Take them at their word.

So each authority needs to decide what its priorities are with regard to existing and new affordable housing in their area; what types of people should be given priority in allocating housing; what rents are reasonable for people in different circumstances; do you want to insist on lifetime tenancies, or will you countenance shorter term tenancies in some – or all – cases? Are there areas where you would like to see tenure diversified or the development of a more mixed community than exists at present?

Each authority needs to think about whether it wants to help a smaller number of people at higher cost, or a larger number of people at lower cost. It is not an easy choice. You need to decide what you are willing to be flexible about and what are your non-negotiables – because the development of the Affordable Rent programme across the country is going to be a negotiated process. It cannot be imposed on an authority, without proving all talk of localism false.

But too tough a stance and you may lose out in the competition for scarce resources. So look for constructive engagement. Identify what chips you have to play with – the land you can make available for housing; your willingness to reinvest New Homes Bonus into housing; your willingness to flex your planning

policies to ensure delivery of new homes, market and affordable, over the next four years.

I believe that there is huge scope to ensure that an Affordable Rent programme is tailored to local priorities, because the rules of the game are not fixed. The government and the HCA are looking for solutions for how to make the programme work in very different areas. But you have to be clear about what it is that your authority wants, and what it can offer.

It is a simple message. Get stuck in now. Or lose out when the money gets shared out. Those who refuse to play the game will never end up winners – unless they have plenty of money of their own!

DTZ works with local authorities to help them clarify their housing objectives; examine what resources they can bring to bear on the provision of affordable housing; how the planning process can be aligned to help deliver additional affordable housing; and advise on how authorities can participate in the negotiation of the local delivery of the National Affordable Housing Strategy. ■



Chris Cobbold

+44 (0)20 3296 2348

chris.cobbold@dtz.com



A lesson from history by *Chris Cobbold*

Back in the late 1980s the government of the day announced that it would set up six Housing Action Trusts (HATs). Existing council housing in six areas would be taken out of local authority ownership and vested in a single purpose body, with a Board appointed by the government. The HAT would invest in improving the estates they took over and fostering economic and social regeneration.

There was a furore. I was involved in undertaking a large consultation programme with tenants in the proposed Leeds HAT area – the civil servants would not go near the area. People were angry. Not surprisingly, the council was bitterly opposed. As time went by, the government desperate to get the policy off the ground, backed away from some of the most controversial elements of their proposals.

By the end of the process the deal on offer to tenants of the estates was actually a pretty good one. But there was no way the tenants were going to accept the deal, given all that had gone before. So some savvy local authorities, seeing what the deal now offered, said ‘we’ll have one of those’. They got a much greater degree of influence on the Board than originally anticipated and they got a great deal of money to tackle the problems of some of their worst estates – this pioneered some interesting approaches in estate renewal, as well as pleasing tenants.

The moral of this tale is: when government introduces controversial new programmes, there is always a deal to be done. The current government needs the new Affordable Rent programme to work. It is looking for partners to identify how to make it work. The government needs local authorities to be involved – which means you can help shape the programme to meet your objectives. ■

Delivering physical regeneration – a new enabling role for local authorities?

“If it ain’t broke, don’t fix it” goes the proverb.

But whilst the conventional models for delivering regeneration may not be permanently broken, a new era has emerged which is heralding new approaches for authorities and partners.

First, there was the credit crunch and subsequent collapse in property values. We saw a massive contraction in the development industry with many well known names wiped out totally and others depleted in terms of their equity base, staff resource and ability to pursue opportunities. As a result, we could no longer rely on rising property values (brought about to a large extent by yield compression and the vast availability of cheap debt finance) to drive and fund regeneration and all but a small number of prime development schemes across the country came to a halt. Although yields have since become more stable, debt remains difficult to secure and occupier markets are weak particularly in the North and the Midlands.

Second, we have seen a radical overhaul of government policy, which, tied to dramatic public spending cuts, has all but removed the availability of public sector funding for property based regeneration schemes. RDAs are being wound up, the HCA's budget has been drastically cut, and the concept of 'gap funding' has become unpopular with an increasing frugal public sector looking for a return on its investment. The new Regional Growth Fund and Local Economic Partnerships (LEPs) are geared towards business led economic development projects as opposed to land and property based schemes. When you also consider the likelihood of a significant decline in the UK's allocation of European funding in the next programming period (i.e. post 2013), the outlook for 'external' funding looks bleak.


Therefore, local authorities can no longer rely on other bodies to fund and deliver regeneration and must find the means for delivery themselves. Some existing and emerging tools available to local authorities include:

- **Prudential Borrowing** – the ability to borrow money on better terms than the commercial market has opened the door to a number of opportunities for local authorities to intervene and underpin regeneration schemes. Prudential borrowing plans require a dependable income stream to service debt and a clear exit plan. We have recently been involved with authorities seeking to acquire underperforming retail/leisure facilities with clear turn-around objectives and exit plans.

We are also seeing a lot of energy being invested in working up innovative funding arrangements for the delivery of new social and market housing.

- **Tax Increment Financing (TIF)** – borrowing against the anticipated increases in income from business rates arising from the delivery of new commercial floor space once sites are enabled for development. Proposals have not been finalised on TIF but many authorities are already testing potential models and readying themselves for the opportunity.
- **Enterprise Zones** – The proposed designation of 21 Enterprise Zones (EZs) across the country announced in the March 2011 budget provides new opportunities and a key tool for the emerging LEPs. The return to an approach based on creating a favourable tax regime and leaving the private sector to deliver fits with the current government's philosophy. With State Aid constraints, work is still needed so that EZs can target occupier demand.

- **Community Infrastructure Levy (CIL)** – a levy imposed on new developments through the planning process to fund community infrastructure, enabling local authorities to forward fund development and regeneration in anticipation of future CIL funds. In truth, where any development is marginal at present it seems unlikely that a development will be able to generate a surplus to make a CIL contribution. If CIL policy is too rigid in terms of the level of money levied then it could have the effect of stalling the proposed development and at worst cause market stagnation. Those which have been announced or are emerging have in some instances introduced a flat rate per sq m across all property types – this could render some uses unviable in development appraisal terms if there is no flexibility and may necessitate a 'subject to viability test' on an open book basis.
- **Development agreements / development partnerships** – these remain the tried and tested method for bringing forward schemes, ranging from single establishment buildings to major multi-phased, mixed-use schemes. After a couple of years of stalling, we've seen a much busier year with major town centre regeneration schemes signed and others being promoted.
- **Asset backed JV** – where a local authority contributes land, property and or funding into a joint venture arrangement with a commercial partner providing equity or a combination of equity and specific skills. The LABV concept was initially conceived to enable local authorities to deliver their difficult sites through packaging them alongside commercially attractive assets. Although the dual effects of falling property values and the dearth of private equity/debt has



prevented many LABVs from getting off the ground, they remain a useful tool in circumstances where an attractive portfolio of assets can be offered to the market. Changes to the Capital Finance Regulations and the introduction of Limited Liability Partnerships (with tax transparency) in particular, have made the use of such vehicles possible. However, there is a risk of these being oversold. They can be expensive to administer with significant governance implications.

- **Recycling capital receipts** – the utilisation of capital receipts from the disposal of public sector assets for funding regeneration may not be a new tool, but it becomes an even more important option for local authorities in the current climate.

A key message is that there are a wide range of routes to delivery. The right commercial strategy grounded in a robust understanding of occupier demand and developer markets is vital.

In conclusion, local authorities must adopt a lead role in the regeneration process not only in terms of spatial planning but also perhaps as an investor. They must be willing to take risks and think innovatively to deliver their regeneration priorities. An immediate action for authorities should be to re-evaluate regeneration priorities and assess the options that are available. ■



Stephen Miles

+44 (0)113 233 7471

stephen.miles@dtz.com

IAS17 – the end of the operating lease

Proposed changes to regulations affecting the accounting treatment of leases are causing quite a stir in the corporate world yet have received little news comment in the local authority arena.

With the final standard outlining the changes to lease accounting pending, DTZ's *Doug Jones* reviews the proposed changes and answers the most frequently asked questions by corporate real estate professionals.

What is IAS17?

The objective of International Accounting Standard 17 (IAS17) is to prescribe, for lessees and lessors, the appropriate accounting policies and disclosures to apply in relation to finance leases and operating leases. Under IFRS this standard is presently picked up in local authority accounts. The standard has been subject to scrutiny, particularly following criticism of off-balance sheet instruments used by the likes of Enron. The Exposure Draft published in August 2010 by the International and US Federal Accounting Standards Boards recommends a significant change to the standard, with the intention of eliminating the operating lease.

When will the new regime be actioned?

The joint committee will issue a final standard in 2011, which, if approved, will likely take effect for financial statements issued in the 2013 calendar year.

Why is this change an issue for occupiers?

- Ballooning balance sheets – for corporates, capitalising leases on the balance sheet will lead to lower asset turnover ratios and usually a lower return on capital. In addition working capital will decrease and the debt to equity ratio increase. In the local authority arena, where there are no balance sheets, accounting for leases in this way will involve recognising these as a liability in the same way as any finance lease or borrowing. Entering a new lease will equate to taking on new borrowing.
- Profit and loss account impacts – in the corporate sector, the proposed rules will slightly frontload rental payment costs in the earlier years of leases as the current 'straight-line' treatment is replaced by a declining balance. Therefore, initially profit will be reduced but in later years it will be greater. Furthermore, EBITDA will increase as rental expense is replaced by interest and amortisation. In the local government arena, there will be a similar impact in terms of how rent costs will impact on the revenue account.
- Centralised administrative burden – for all occupiers, the calculations to be made at each reporting date require significant real estate input with regard to provision of information and also judgement of likely term and rental escalations.

What do local government corporate real estate professionals need to do now?

- i. Understand and quantify the impact of the changes to lease accounting to the authority's borrowing position and impact on the revenue account
- ii. Collate all relevant lease information and establish a comprehensive lease administration system
- iii. Communicate with your finance departments to clarify the changes, decisions and reporting needs for the future
- iv. Reassess the principles on which real estate decisions are made.

What impact will these changes have on strategic real estate decisions?

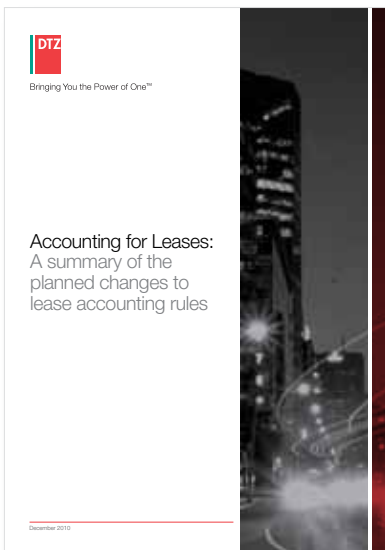
It is difficult to say what impact changes to IAS17 might have in the market. However, we speculate as follows:

The attractiveness of ownership will be increased. With the incentives to lease by achieving off-balance sheet treatment being removed, the decision to lease a building might be compared directly against a decision to lease the money (borrow) and buy the building. Decisions should be more commercially driven, considering factors such as length of commitment and rent versus debt.

There could be a possible reduction in lease lengths since longer lease terms will have a larger impact on implied borrowing and impact on the revenue account. However, the faster write-down of fit out costs may outweigh the benefits of shorter leases. Furthermore, leases will be valued over the 'longest possible term that is more likely than not to occur' and therefore assumptions could well extend beyond lease dates requiring a larger liability. In conclusion, a suitable balance

between cash and accounting that supports business need must be found.

There could be a potential reduction in sale and leasebacks and re-gears. Some occupiers may avoid entering into the type of long-term commitment that make sale and leaseback and re-gear attractive propositions. However, the economic benefits of these transactions still remain, for example, locking in lower rental obligations or securing rent free incentives/capital receipts. In addition, the structure of leases will no longer be driven by avoiding finance lease treatment. Therefore potentially attractive clauses for longer term commitments such as right to buy at expiry can be considered without as much concern for accounting impact.



DTZ has published a whitepaper entitled '*Accounting for Leases: A summary of the planned changes to the new accounting rules*', which provides further details about the changes to lease accounting. To download a copy, visit www.dtz.com/occupier. ■



Doug Jones
+44 (0)20 3296 2265
doug.jones@dtz.com



Impact of the Localism Bill on neighbourhood planning

As the Decentralisation and Localism Bill continues to progress through parliament, the implications for town planning are beginning to be understood.

The Localism Bill proposes to introduce a new tier of planning policy to England – ‘neighbourhood planning’. As part of the coalition government’s ‘Big Society’ initiative, it is intended that people will have a greater say in development proposals in their local area. The creation of neighbourhood plans is seen as one of the mechanisms for achieving this, alongside neighbourhood development orders and ‘community right to build’ orders.

England is a country with a growing population of over 50 million people with the majority living in our cities, towns and villages. Such a significant population could translate into a very large number of neighbourhood plans, potentially much greater than the government’s anticipated figure of 2,000 over the next five years.

Local planning authorities will have a key role to play in making neighbourhood development plans and therefore assisting local people with their neighbourhood plan proposals. For example, this is likely to extend to the size of a neighbourhood plan area being influenced to prevent the micro-management of small geographical areas being guided by a small number of individuals.

In addition, neighbourhood plans will be required to be in accordance with the adopted Local Development Framework documents, especially the Core Strategy. This is clearly going to raise areas of conflict where, for example, sites that are allocated for development which are of strategic importance – for example waste to energy power stations and large residential schemes - are opposed by local residents. If this occurs, true localism could be rendered ineffectual.

As the localism agenda continues to move forward at a pace, in Leeds for example, the principle of neighbourhood planning could see over 100 neighbourhood plans being produced. In previous work undertaken by Leeds City Council, 110 individual geographic communities were identified as constituting the Leeds City Council administrative area. If each of these communities decided to produce its own unique neighbourhood plan, the administrative, bureaucratic, political and planning challenges would be very significant. So much for simplifying the planning system!

The principle of neighbourhood planning is an understandable, practical extension of the Prime Minister’s ‘Big Society’ initiative. When implemented, it will give local people a far greater say in the future development of their local area. However, the Localism Bill – as currently drafted – states that neighbourhood plans must be in accordance with the development plan. It is here where potentially the key failing, or conflict, of neighbourhood planning lies. It raises the question of what happens when local people are opposed to a scheme in an adopted development plan, but their own neighbourhood plan can only be adopted if that particular proposal is included. In addition, if the Leeds example is representative of the number of neighbourhood plans taken forward at a national level – with England’s 350 local authorities – there could be over 35,000 neighbourhood plans. In town planning terms, this would be the true face of localism. ■



John Brooks
+44 (0)113 233 7466
john.brooks@dtz.com



Editors note Localism commission

The Localism Bill will have far reaching implications for local authorities in terms of community interaction, town planning, property and asset management.

DTZ’s head of Public Sector, James Grierson, has been appointed to the Localism Commission which has been receiving evidence and is scheduled to report this Spring.

We will, in the coming months, be communicating with our clients to help them prepare for some of the implications of this developing area. If you are interested in receiving further details then please contact:



Sally Saadeh
+44 (0)20 3296 3482
sally.saadeh@dtz.com

Managing the minefield – to deliver a modern and efficient accommodation solution

The delivery of an accommodation solution that will help an authority drive efficiencies within their organisation and facilitate change is often thwarted between the initial decision being made and delivery of new facilities.

The path is strewn with pitfalls and risks that your organisation will need to plan for and avoid if you are to achieve a successful outcome.

DTZ's *Andrew Smith* has worked with a number of organisations to deliver modern, fit for purpose accommodation. In this article he outlines a few points for consideration, helping you to navigate some of the challenges you are likely to face in delivering your vision.

1. Understanding future needs - collate available information and build on detail and quality as project develops.

Although your organisation may be unable to confirm future service delivery models or directorate business plans and requirements as a result of ongoing transformation changes, you must start off with the best estimate of what will be required and design in flexibility to accommodate future changes.

Your accommodation project may prove to be a catalyst for further discussion and decisions on operational changes to be refined and incorporated as the project develops.

Do not expect to achieve the 'perfect fit' because the organisation is likely to evolve through continuing change whilst property is an in-elastic supply with much longer time planning horizons.

At the building level the strategy should be focussed on achieving a reasonable fit for planning purposes. Flexibility to accommodate changing needs should be a core principle.

2. Develop a sound and robust business case - be honest and upfront about goals.

The business case should confirm strategic goals and consider approaches to achieve these. Where the aim is to drive efficiency then efficiency should be measured. Many organisations key aim is to facilitate headcount reduction but they are not prepared to put explicit numbers to this. It then stops being measured, the focus concentrates on taking out property overheads and the desired savings fail to be achieved (even though these might be many times greater).

Options analysis should include both financial and non-financial appraisals, together with an early assessment of affordability and risk. This will help avoid future challenges from auditors, residents and members and ensure that a robust approach to implementation is adopted, starting from the options analysis stage.

3. Current property budgets are not a good benchmark. Be honest about property costs.

Following (2) above, it is not helpful to preface a strategy with the objective of achieving a real reduction in property costs against current budgets. This is especially true where present budgets are already unsustainable with backlog repairs required after years of under investment. The consequences to the wages bill arising from inefficient premises will usually eclipse the investment required to achieve an efficient solution.

Options analysis must focus on spatial and organisation efficiency. Many benefits will flow from a more efficient modern estate, including; improved communication between teams; your ability to achieve sustainability targets; reduced running costs and travel time; and the creation of an environment that improves staff welfare, productivity and operational efficiency; in addition to

helping facilitate change. You may also want to consider the regeneration and other economic development benefits that may result from the provision of a new facility.

4. Proactively manage communications.

Investing in new offices is a difficult message when there are pressures on budgets.

Obviously 'new offices' is seldom the goal itself – but we have seen very good schemes lost because of local political point scoring, with members publicly attacking the headline cost of new premises, and neglecting to communicate the positive side of the equation (even when the savings outweigh the cost many times and schemes also unlock valuable regeneration).

The council must be proactive in managing its public relations and communications plan. If the local media knows a scheme will save the public purse millions of pounds and unlock important regeneration then it might not be so willing to throw its support behind the 'sound bite' headline attacking new offices on principle.

Ensure that the inefficiencies of the existing estate and its cost relative to an alternative new solution are highlighted at an early stage of the planning process. This needs to be considered in the light of criticism that may come from residents, press and opposition members, which highlights the capital cost of a new building but failing to mention any benefits.

With any major property transaction the control of information is vital. It is no good members considering a handful of sites and selecting their preferred option, if terms haven't already been locked down

on acquiring this. The need to ensure the authority retains a competitive position and ideally can secure commercial leverage should be factored into the member approval process.

5. Be clear of your core requirements when approaching the market.

Be clear what is required from the market and which method of procurement is best suited to deliver what the council needs. This will ensure the delivery of the most cost effective and timely solution since uncertainty can lead to major overspend and time over-run.

This necessitates excellent commercial awareness and good understanding of supply side opportunities. Prior to engaging in any procurement the authority should have a robust commercial strategy which will address supply side opportunity, funding requirements and risk management in project delivery.

It is important to remember that evaluation criteria, which need to be agreed at the commencement of procurement and which cannot be changed thereafter, must adequately reflect the council's requirement and enable it to identify a preferred supplier without the risk of challenge.

6. Appoint the right team of advisers and a strong project manager.

The selection of suitably experienced technical, financial and legal advisers is critical. Above all the lead consultant should have commercial acumen across the full project, focused on achieving successful project outcomes.

The implementation team should have the required skills to guide the council through the procurement minefield, to advise and facilitate decision making and to provide sufficient challenge. This will ensure the delivery of a sustainable

value for money solution that meets the council's requirements.

A strong project manager will co-ordinate and ensure a joined up approach being taken by the advisers and to provide the link with the project's sponsor and owner and the rest of the project board.

7. Senior management must show leadership.

In delivering flexible new ways of working including open plan and shared facilities and the introduction of required space standards and policies, commitments from the senior management teams to embrace new ways of working will be critical in driving through change, encouraging staff to work more flexibly in addition to gaining political support.

In our experience these strategies are always easiest where there is a strong top-down commitment to principles of modern flexible working and the benefits this can bring in terms of service transformation and business leadership. Without senior management team buy-in to these key principles these projects can then become very difficult when push comes to shove in the highly intense later implementation stages. Time spent at the outset ensuring robust project leadership and governance, particularly the buy-in of the senior team can be invaluable.

8. Don't forget the locality bases and working with partners.

The provision of a new sustainable and efficient central facility will only be effective if there is adequate accommodation within the localities which the council serves. Those who are provided with workstations and touchdown facilities in a new central headquarters will need similar accommodation within the localities. Typically, this accommodation can be provided alongside libraries and leisure

centres together with co-location with partner organisations including health and police.

9. Consult with and communicate with your staff and other stakeholders.

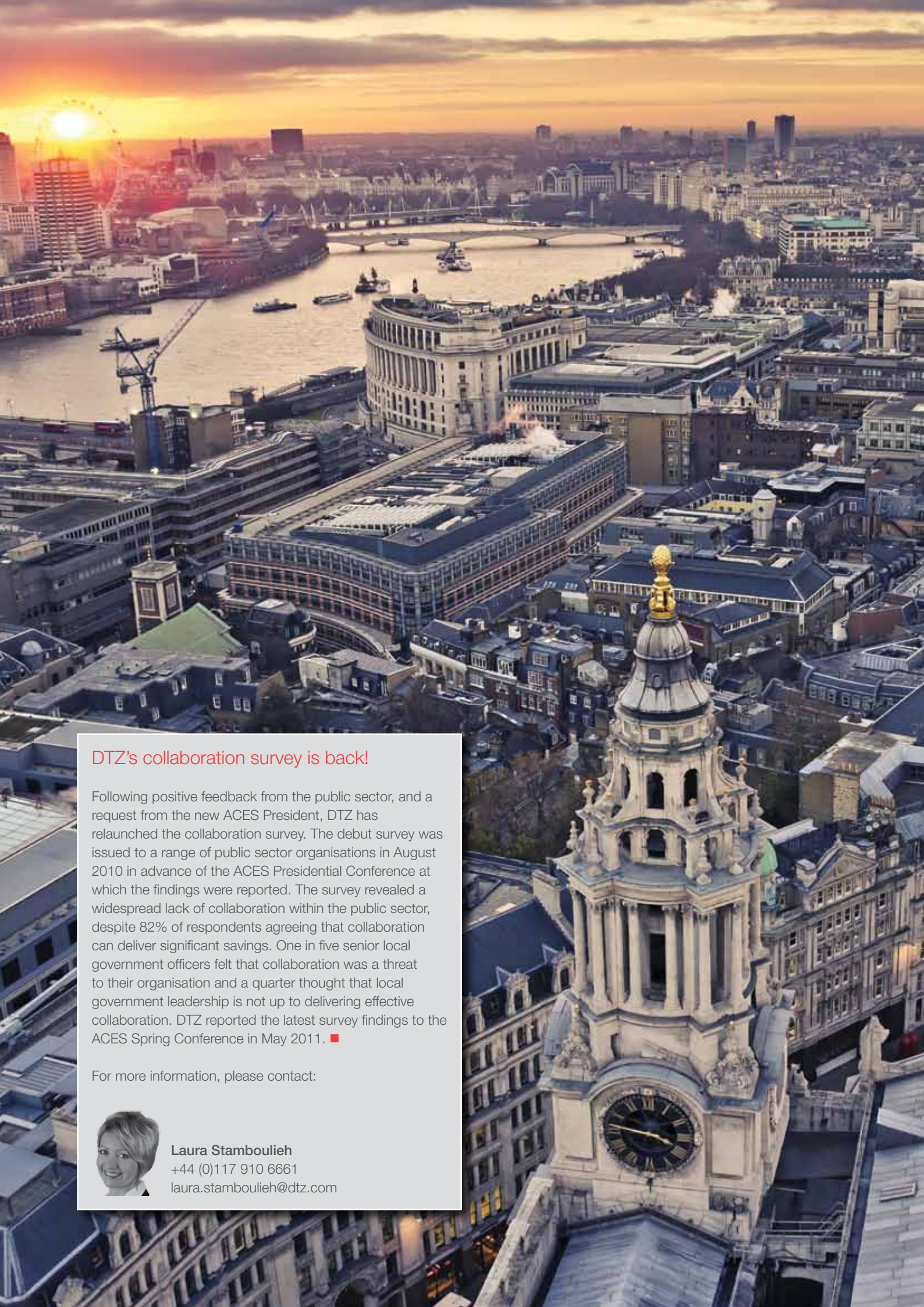
Any accommodation project should be considered as part of a major change programme and working closely with HR will be essential to ensure that the council communicates with staff and any move to a new facility is facilitated by training and assistance to adapt to the new environment and new ways of working. It is essential that any myths around the introduction of new ways of working are dispelled and with steps taken to mitigate any risks involved in disruption to services. ■



Andrew Smith
+44 (0)113 233 7306
andrew.tc.smith@dtz.com

DTZ provides practical tips to ACES members

DTZ provided cost cutting and performance delivery tips to ACES members at the Spring Conference in London on 5-6 May. The conference theme was 'Property – A Brave New World?' and the programme focused upon supporting public sector property professionals to tackle the new political and economic landscape. DTZ considered the diverse nature of public sector operational and non-operational property portfolios. Using a 'high level diagnostics' approach that focuses upon the physical, managerial and financial aspects of property, DTZ's *Andrew Smith* provided practical examples of how performance enhancement can lead to real savings. ■



DTZ's collaboration survey is back!

Following positive feedback from the public sector, and a request from the new ACES President, DTZ has relaunched the collaboration survey. The debut survey was issued to a range of public sector organisations in August 2010 in advance of the ACES Presidential Conference at which the findings were reported. The survey revealed a widespread lack of collaboration within the public sector, despite 82% of respondents agreeing that collaboration can deliver significant savings. One in five senior local government officers felt that collaboration was a threat to their organisation and a quarter thought that local government leadership is not up to delivering effective collaboration. DTZ reported the latest survey findings to the ACES Spring Conference in May 2011. ■

For more information, please contact:



Laura Stamboulieh
+44 (0)117 910 6661
laura.stamboulieh@dtz.com

Fit out and workplace



In these challenging economic times, organisations are digging deeper and seeking out ways to service ever more demanding clients on reduced margins and to tighter timescales. DTZ's *Natasha Morley* considers how much the workplace has changed over the last ten years and what companies need to do to create the optimum working environment to maximise productivity.

Business practices are evolving and the views expressed by the Funky Business mavericks Kjell A. Nordström and Jonas Ridderstråle in the late 1990s are increasingly making sense. Businesses that are succeeding in the global marketplace are thriving on changing circumstances and unpredictability, unafraid of difference and creativity. Nordström and Ridderstråle highlighted the value of people and the power of collaboration, capturing collective skills and knowledge in a manner that make a difference. Equally they predicted a number of changes to traditional business practices including:

- Dissolving 9am to 5pm conventions and increasing the incentive to work anytime, anywhere
- Virtual workforces and crowd sourcing concepts allowing organisations to

accommodate peaks and flows in demand

- Seamless, interconnected, client-supplier teams
- Co-creation practices
- Enhanced use of online collaboration tools, and
- A focus on output rather than presenteeism.

Role of technology

Here in 2011, it is clear that technology investments are paying dividends. Mobile devices (laptops, mobile phones, BlackBerry devices) are widely distributed and heavily utilised across all grades in many organisations. The latest generation of VOIP¹ technology is finally reliable

¹ Voice Over Internet Protocol

and relatively cost effective so it is now possible to integrate phone and data systems in a seamless manner. Plus cloud technology services have reduced the need for investment in desktop software, introducing the concept of pay-as-you-go usage arrangements. But it is inescapable that connectivity comes with a cost, which needs to be carefully evaluated along with other corporate expenses.

The changing nature of work, the number of people needing to work outside the office and requirements to contain expenses has led to a new approach to resource planning, the provision of workspace and technology investments.

Demand predictions beneficial

A demand management led approach advocates developing strong ties with the business. Key disciplines include demand profiling, investigating key triggers driving demand and experimentation with the influencers that drive demand. It follows that a business that can predict demand is able to plan more effectively, encouraging substitution in advance or during peak demand waves.

Although some may say the office is less critical today than perhaps it was, the opposite is actually the case. Myerson and Ross (2003) argue that formal office environments now hold organisations together in ways they never did before. As such, greater focus is required on creating the right platform, interweaving design and technology attributes to ensure the right balance is achieved.

At a recent round table discussion in London, one of DTZ's design experts, Gary Lagdon, commented: "Whilst organisations vary in terms of their needs for space in line with the activities and services performed, the general trend is to ensure a significant proportion of good quality space for interaction." Gary cited environments created recently for clients

How far have Nordström and Ridderstråle's predicted changes become a reality?

- **Dissolving 9am to 5pm conventions** - It is widely recognised that multiple factors are at play, not least, changing social norms. This is demonstrated by the CMI's Generation Y report which highlighted that 59% of interviewees were happy to mix their work and personal lives, with 38% saying they already work in the evenings and a further 34% at weekends.
- **Virtual workforce** - Organisations are increasingly aware of the need to expand and contract resourcing levels on a need basis. Freelancing and contract working arrangements are now widely embraced and the concept of crowd sourcing is being explored by many. This strategy was reportedly considered by IBM earlier this year in an attempt to reduce the size of their permanent staff pool by a three quarters, from circa 400,000 to 100,000 by 2017.
- **Seamless client** - Supplier teams that are co-located are increasingly prevalent especially in areas such as ICT, engineering, and media. This reflects a need to combine intelligent client functions with specialist skills, allowing multiple workstreams to run in parallel in a client responsive manner.
- **Co-creation practices** - Virtual collaboration was first developed in the ICT world with the development of open source technology, online chat rooms and Wikipedia. The concept has gained momentum over the years as multinational organisations have sought to deploy resources 24 hours a day, seven days a week. Many examples exist in engineering organisations where companies are fighting to develop new products in advance of competitors. Perhaps less conventional is the idea of pharmaceutical firms sharing research, but given the need to reduce research and development timeframes GSK has done just that. In 2009 GSK shared its cancer findings with all research houses, allowing the organisation to tap into a wider pool of knowledge and specialist skills, whilst encouraging idea development to cut drug development times.
- **Enhanced use of on-line collaboration tools** - A plethora of video conferencing and on-line collaboration products now exist, enabling virtual teams to share information on a real-time basis.
- **Output orientation** - Naturally, productivity measurement is a source of great interest. It is increasingly recognised that managers and staff need to regularly agree the scope of work required on projects as well as the deliverables. As such organisations are increasingly focused on project achievements and client satisfaction rather than presenteeism.

such as Yahoo!, E.ON Ruhrgas and Deloitte.

Pernille Stafford, interior design director at international architectural practice Scott Brownrigg, continued:

"Organisations are seeking to create spaces in which teams and project areas can be quickly assembled and disbanded and are striving to create supplementary distraction free environments – notably quiet zones for contemplative work."



Above images courtesy of Scott Brownrigg Interior Design

Creating the optimum environment

Organisations can move towards creating the optimum environment, accommodating the latest work enhancing technologies and design practices by:

- **Establishing clear goals** – Introduce a new set of working practices or space design principles that make sense for your organisation
- **Focusing on ‘all-in cost’ and potential benefits of investments** – Review the impact of a percentage increase in productivity on your bottom line versus the level of investment required
- **Evolving the culture** – Embrace change at the highest level to encourage shifts across the business
- **Building trust** – Small changes can have a big impact on morale and productivity, so be clear about what is happening, what impacts they may have and provide ample training empowering people to harness new working practices
- **Identifying advocates** – Pilot new concepts and practices, build success stories and create a sense of momentum from within, enabling you to strip away resistance
- **Investing in relatively low technological solutions** – Consider how small changes might impact operations (e.g. providing browser based access to emails for all staff 24 hours a day, seven days a week)
- **Making it seamless** – Ensure internal and external customers can connect via a variety of media in a seamless manner to maintain and improve response times.

Given new market realities and recognition that companies light in real estate are rocketing, all businesses are likely to need to work real estate assets harder. Businesses of the future will increasingly demand that staff work in a dynamic, peripatetic manner. No ‘one size fits all’ model applies, but it will be increasingly important to focus on what workplace ingredients are right for each and every business if organisational footprints contract.



Natasha Morley
+44 (0)20 3296 2366
natasha.morley@dtz.com

Director's cut



The third director to volunteer a slice of her life to readers of *The Authority* is **Laura Stamboulieh, Director in DTZ's Consulting team** and also **Head of Emergency Services**. We meet a woman who has demonstrated great determination to get into the profession and who has some 'wise words' for those thinking of doing the same.

What was your route to the job today?

I graduated from Bristol UWE in the last recession. I made (what seemed like) thousands of APC placement applications and, without success, I headed back home to Newmarket. I had made my mind up that I wanted to work in Bristol and I therefore made sure that the Bristol Evening Post was sent to my home. After 5 months of looking through the job pages, I stumbled across a Credit Controller position at Donaldsons. I had a successful interview and started work in January 1993 (the job also entailed receptionist duties). I finally secured an APC position with Donaldsons and first 'got into' public sector consultancy in 1995 when I helped to set up the Bristol office consultancy offer. In 2007 Donaldsons became DTZ and the rest is history...!

What did you want to do as a child?

I am sure that, at some point in my childhood, I wanted to be a 'professional princess'. However, I do recall drawing plans of houses at the age of 8! With a Head Teacher for a mother and a QS for a father, public sector consultancy probably picks up on the skill areas required for both those vocations.

What advice would you give to a young person thinking of starting in the property profession?

I think that I would encourage the individual to think about the sort of person they are and the kind of 'mind' they have. For example, are they a transactional/delivery focused person or are they more comfortable in a strategic/consultancy remit. Recognising this early on will help you to steer yourself in the right direction.

How do you relax?

I go running. When I am not running, supping a lovely glass of New Zealand wine whilst watching a complete series of *Lost* or *24* is pretty relaxing!

Your biggest achievement?

Passing on a crazy sense of humour to my gorgeous little girl, Evie. Oh and passing Greek O-Level (with an A) at the age of 32!

Any words of wisdom you'd pass on to your children?

I will be reminding Evie (no doubt sometime around her 21st birthday) that she has a whole life ahead of her so there is no need to rush into things. I shall be telling her how important it is to get to know who you are as a person and being comfortable and confident about being that person, before committing to any long term situation. ■



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Sector heads



James Grierson

Head of Public Sector
Central Government
+44 (0)20 3296 2264
james.grierson@dtz.com



Andrew Smith

Local Authorities
+44 (0)113 233 7306
andrew.tc.smith@dtz.com



Chris Cobbold

Affordable Housing
+44 (0)20 3296 2348
chris.cobbold@dtz.com



Richard Collins

Education
+44 (0)131 222 4579
richard.collins@dtz.com



John Cooke

Health
+44 (0)191 223 5790
john.cooke@dtz.com



Laura Stamboulieh

Emergency Services
+44 (0)117 910 6661
laura.stamboulieh@dtz.com

www.dtz.com/uk/publicsector

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