

Operational Efficiency Programme: property

May 2009



HM TREASURY



HM TREASURY

Operational Efficiency
Programme:
property

May 2009

© Crown copyright 2009

The text in this document (excluding the Royal Coat of Arms and departmental logos) may be reproduced free of charge in any format or medium providing that it is reproduced accurately and not used in a misleading context. The material must be acknowledged as Crown copyright and the title of the document specified.

Where we have identified any third party copyright material you will need to obtain permission from the copyright holders concerned.

For any other use of this material please write to Office of Public Sector Information, Information Policy Team, Kew, Richmond, Surrey TW9 4DU or e-mail: licensing@opsi.gov.uk

HM Treasury contacts

This document can be found in full on our website at: hm-treasury.gov.uk

If you require this information in another language, format or have general enquiries about HM Treasury and its work, contact:

Correspondence and Enquiry Unit
HM Treasury
1 Horse Guards Road
London

SW1A 2HQ

Tel: 020 7270 4558

Fax: 020 7270 4861

E-mail: public.enquiries@hm-treasury.gov.uk

ISBN 978-1-84532-597-8

PU729



Official versions of this document are printed on 100% recycled paper. When you have finished with it please recycle it again.

If using an electronic version of the document, please consider the environment and only print the pages which you need and recycle them when you have finished.

Contents

		Page
Chapter 1	Property	3
Annex A	List of meetings	21
Annex B	Bibliography	25

1

Property

Advisor: Lord Carter of Coles

Lord Carter of Coles is a Labour Peer who, in addition to a career in business, has advised the Government on a wide range of issues and has chaired a number of government reviews. In 1985, he founded Westminster Health Care which he built into a leading health care provider and sold in 1999. He is a private investor and director of companies in the fields of insurance, healthcare and information technology. He was Chair of Sport England from 2002 to 2006, was a member of the Home Office Board and of HM Treasury's Productivity Panel. He was assisted in this workstrand by Lord Hart of Chilton, Sir Christopher Howes, Geoff Gillham, Simon Roberts and Mike Whittles.

Summary recommendations:

- 1 the Government should create a new central property function to drive efficient use of property across the whole of the public sector. It would be a small strategic resource, which would work closely with HM Treasury teams as well as with organisations across the public sector and, where necessary, draw on private sector expertise. Its main roles would be to provide:
 - a strategic overview of rationalisation and disposal;
 - property standards and advice; and
 - coordination and oversight of property performance.
- 2 in producing new departmental spending plans, HM Treasury should take steps to ensure that departments make choices in their capital investment plans which deliver a rationalised and more efficient estate. The new central property function would assist HM Treasury teams in this process;
- 3 the public sector should be more consistent and transparent in the data it collects and publishes in relation to property management and usage. In particular, organisations are encouraged to publish information about the core, surplus, and intermediate property assets held. All local public services should also be encouraged to follow best practice and use the audit agencies' value for money indicators, which should be closely linked to the Audit Commission's 'use of resources' assessment; and
- 4 HM Treasury and Communities and Local Government should together investigate whether a depreciation mechanism for local authorities and other local delivery bodies would be workable, considering in particular the advantages and disadvantages of a depreciation charge and any potential impact on the public finances.

1.1 This workstrand has found that there is significant scope for public sector property and land to be used more efficiently and effectively. The recommendations for strengthening accountability and performance management, set out in the Executive Summary of the *Operational Efficiency Programme: final report*,¹ are a crucial part of the new approach, outlined in this chapter, for improving the efficient use of property and are integral with the property-specific recommendations set out in paragraph 1.5 of this chapter.

1.2 Over the next 10-year period, this workstrand estimates the potential for savings from improved efficiency to be around £20 billion in receipts from property disposals (excluding council housing), and savings in running costs of up to £5 billion a year by the end of that period. Departments are likely to need to prioritise investment in order to pump-prime the rationalisation of their estates.

1.3 Disposals need to be carefully planned to maximise value for the public sector, especially in the light of current property market conditions.

1.4 Cultural and managerial change is key to achieving a step-change in performance. Some organisations have already substantially met this challenge, and others can learn from them. Principles of good practice need to be applied consistently across all parts of the public sector.

1.5 To achieve the new approach to property management, this workstrand recommends:

- a new central property function to drive efficient use of property across the whole of the public sector;
- steps to facilitate investment in property transformation; and
- specific actions to achieve change across the wider public sector.

The public sector estate

1.6 Obtaining and compiling data about the size of the total estate owned and used by the public sector is challenging. From limited available data, and drawing on a number of different sources, the workstrand has established the following picture.²

1.7 According to the Office of National Statistics, the public sector's property assets have a book value of £370 billion.³ This represents about £6,000 worth of assets for every UK resident.⁴ The UK's local government property (including council housing) accounts for two thirds of this total – around £240 billion – and central government and public corporations for the remaining one third – £130 billion.⁵

1.8 This asset base is growing. Public Sector Net Investment (the resources invested in the creation of new capital assets, including property) was about £30 billion for 2007-08.⁶

¹ See www.hm-treasury.gov.uk/vfm_operational_efficiency.htm

² Reliable and consistent data on the property assets owned and used by the public sector is difficult to obtain because there is no one comprehensive, detailed and authoritative record. Organisations' accounts provide information on assets held, and some bodies also maintain estate databases, but given the vast number of public sector organisations, it was not feasible to compile a complete picture from these.

³ *United Kingdom National Accounts: The Blue Book*, Office of National Statistics, 2008.

⁴ *National Statistics*, www.statistics.gov.uk

⁵ *United Kingdom National Accounts: The Blue Book*, Office of National Statistics, 2008.

⁶ See 2008 Pre-Budget Report.

1.9 From the 2007 National Asset Register, which itemises all central government freehold assets with a book value of over £1 million, the sectors with the largest property holdings are health, with around £35 billion,⁷ and defence with around £18 billion.⁸

1.10 Local government's estate is made up of a diverse portfolio including schools, housing, offices and leisure facilities. Unlike other parts of the public estate, local authorities (including counties, metropolitan boroughs and districts) are partly funded by central government and partly from council tax revenue. They are also able to raise capital through borrowing, subject to affordability as set out in the prudential code.⁹

1.11 The book value of property does not give a good indication of the market value. For example, the net book value of council housing in England is around £100 billion, while the current market value is estimated to be over twice as much.¹⁰ By contrast, for operational property assets such as hospitals or courts, the net book value is often much higher than their estimated market value.¹¹

1.12 In order to assess the potential size of disposal receipts, this workstrand has made a conservative estimate of the market value of public sector property. Excluding council housing, and taking account of current property market conditions, the potential market value of the estate is estimated to be in the region of £100 billion. This figure has been used as the basis for estimating the level of receipts achievable through property disposals.

1.13 The public sector estate has estimated annual running costs of more than £25 billion¹² – equivalent to five per cent of total public sector current expenditure.¹³ This includes the cost of running the freehold estate as well as leasehold and Private Finance Initiative (PFI) property.

1.14 In considering efficiency, an important measure is density of occupation or use. For the public sector, reliable information is available only for the central government office estate, where almost 14.5 square metres are used per full-time equivalent (FTE) employee, but good practice in public and private sector organisations shows that this can be reduced by a third.¹⁴ At present comparable information is not readily available for other parts of the public sector estate.

Approach

1.15 This workstrand has engaged with property experts, chartered surveyors, corporate real estate advisors and key stakeholders from the public and private sector, including representatives

⁷ This includes the Department of Health, National Health Service, Foundation Trusts and Primary Care Trusts in England.

⁸ *National Asset Register*, HM Government, 2007.

⁹ The Prudential Code for Capital Finance in Local Authorities has been developed by the Chartered Institute for Public Finance and Accounting (CIPFA). More information is available at www.cipfa.org.uk

¹⁰ For net book value see: *Local Government Financial Statistics England, No18*, Communities and Local Government, 2008. A potential market value of around £260 billion is derived using 2006 English House Conditions Survey valuations (which are the most recent available), based on sale of each individual property on the contemporary housing market (vacant possession at contemporary market prices), which are applied to the around 2 million properties that make up English council housing stock. The average house price reduction of around 10 per cent since 2006 (Source: average Halifax and Nationwide house price growth rates in 2006 and 1st quarter 2009) suggests a current market value in the region of £234 billion.

¹¹ The net book value of specialised property assets is normally based on Depreciated Replacement Cost, the estimated cost of replacing the functions of the property asset in question and providing the same service potential, adjusted to take account of obsolescence. The estimated market value is normally based on their alternative use.

¹² OEP estimate based on a number of sources. Running costs normally include rent, rates, utilities and Facilities Management (FM) costs. For PFI buildings, these costs are included in a 'unitary charge', which includes payments to cover the cost of capital expenditure incurred in building the property (and associated financing costs), the cost of maintaining the building and the facilities management services costs.

¹³ See 2008 Pre-Budget Report

¹⁴ Based on information from OGC, various private sector organisations and professional bodies including the Royal Institution of Chartered Surveyors (RICS) and the Association of Chief Estates Surveyors and Property Managers in the Public Sector (ACES).

of central and local government. In addition, existing research, published documents and studies were reviewed and an analysis was undertaken of different countries' approaches to the management of public sector property. A number of more detailed studies, e.g. into the NHS London estate and into a section of the Ministry of Defence's property and land holdings, were also carried out, working closely with those organisations. The evidence gathered from these activities forms the basis for the analysis and recommendations contained in this chapter.

1.16 This workstrand has considered the property opportunities and challenges for the whole of the public sector. The majority of public services, though partially or totally funded centrally, are delivered through wider public sector organisations over which central departments have limited control.

Quantifying the potential benefits

1.17 The workstrand has estimated the potential benefits in terms of disposal receipts and running costs by using the limited available data and drawing on evidence and assessments from property stakeholders regarding the potential savings achievable for different parts of the estate.

1.18 The analysis is also supported by specific studies. For example, a study undertaken in partnership with NHS London indicated that there was significant potential for efficiencies in the health estate although this workstrand acknowledges the significant challenge to achieving them (see Box 1.A). This analysis could be developed further and should not be used to provide a final assessment of the efficiency of particular trusts.

Box 1.A: Study of the use of NHS property in London

The property strand of the OEP worked in partnership with NHS London to examine NHS property use in London focusing mainly on NHS acute trusts.

The study identified the main drivers of space usage within acute trusts and then developed a benchmarking model to calculate how much space an acute trust requires given the level and type of activity that it undertakes. This model enabled comparisons to be made between trusts with a similar profile.

At the same time the model controlled for the quality of healthcare provision by including only those trusts that had been rated 'good' or 'excellent' by the Healthcare Commission in relation to quality of service. It also made an adjustment for the Government's current policy of raising service quality through the provision of single-bedded wards. In this way the methodology compares trusts with what is currently being achieved by other comparable trusts offering at least a 'good' quality of care.

By applying this methodology to all good and excellent rated trusts across London, the study concluded that, on average, these trusts could deliver their current level of activity and quality with about 18 per cent less space.

1.19 The recommendations this workstrand makes should produce substantial savings as follows:

- around a 30 per cent reduction in central government office accommodation through the reduction of space occupancy from 14.5 to 10 square metres or better per FTE could be achieved by adopting best practice (including desk sharing). This could reduce running costs for this part of the estate by £1 billion a year;

- for the remainder of the estate, property assets (excluding council housing) could be reduced by around 20 per cent over an initial 10 year period, reducing running costs (including rent from leasehold buildings) by between £2 billion and £4 billion a year;
- for the retained estate, running costs could be reduced by around £0.5 billion a year. A further £0.5 billion a year could be saved from collaborative procurement of facilities management (FM), which is included in the savings figures in Chapter 2 of the *Operational Efficiency Programme: final report*;
- for the whole of the public sector freehold estate (excluding council housing) £20 billion in disposal receipts over an initial 10 year period;¹⁵ and
- the reduction of the estate would also bring significant improvements to government's performance on carbon emissions reduction, including making a large contribution to the achievement of the government's carbon emissions targets for the central office estate.¹⁶

1.20 In total, this would mean:

- compared to an estimated 2007-08 running costs of approximately £25 billion, savings of up to £1.5 billion a year plus a further £0.5 billion from collaborative procurement of FM by 2013-14. This rises to a total of around £5 billion by the end of a 10 year period (excluding energy efficiency savings); and
- proceeds from sales in the region of £20 billion (excluding council housing) over an initial 10 year period.

1.21 In order to realise these savings, departments are likely to need to invest in their estate. The majority can be funded from efficiency savings, but initially departments may need to prioritise significant up-front investment.

1.22 Potential rationalisations and savings will not be spread equally across the public sector and organisations' previous performance needs to be taken into account. Some organisations have already taken significant steps to rationalise their estate and its running costs. Following Budget 2009 these calculations will be refined in order to create tailored and intelligent targets to inform new departmental spending plans (see paragraph 1.54).

The principles for efficient management of property

1.23 The following are suggested as principles of efficient management of property across the public sector:

- at the most senior and strategic level, management should provide effective challenge to their organisation's use of and demand for property, supported by appropriate expertise;

¹⁵ The 2004 Spending Review established a target endorsed by Sir Michael Lyons, to dispose of £30 billion of assets by 2010, with £24 billion to come from local government, and the remaining £6 billion from central government. Disposals under this target included property, as well as other fixed assets and council housing, which made up a significant share. The latter two are excluded from the OEP property strand's estimate for disposals. The OEP has calculated an estimated market value for use as a basis for estimated disposal receipts from the estate, rather than using the book value.

¹⁶ The government's targets for Sustainable Operations on the Government Estate (SOGE) were launched by the Prime Minister in June 2006. For more details see www.defra.gov.uk

- organisations should have strong incentives and controls so that they fully recognise the costs associated with property, and treat it appropriately as part of their strategic planning process, ensuring that property use is aligned with business objectives;
- there should be good data and guidance to allow the costs and use of property to be quantified and understood, to ensure that property use is in accordance with best practice standards; and
- organisations should work collaboratively, managing and sharing property across organisational boundaries, and achieving economies of scale to the fullest extent possible. Where operations are dispersed across the country, “hubs” at regional and local level – where different parts of the public sector could share property – would maximise the efficient use of property and enhance the delivery of joined up public services.

1.24 Although these principles are common to all organisations, and certain actions will be required centrally to raise standards across the country, this workstrand does not seek to impose uniform solutions across the public sector. The nature of the mechanisms by which these common principles are applied may differ to take account of the diversity of the public sector and the fact that local bodies will be best placed to decide how to optimise implementation locally.

Analysis

1.25 Many of the findings support those of previous reports, including by Sir Michael Lyons, the National Audit Office and the Audit Commission.¹⁷ This workstrand builds on these reports and makes recommendations which would firmly embed the above principles in the public sector.

Senior and strategic management

1.26 Strategic management of property at a senior level within organisations, supported by the expertise of property professionals, is one of the key principles for ensuring a well-managed and efficiently used estate.¹⁸ It would also drive some of the other key principles identified, such as the availability of good data (which will in turn enable better management) and collaboration between organisations.

1.27 The efficient management of property requires engagement at a senior and strategic level so that:

- property is clearly linked to a wider business strategy and connections are made between property and other business areas, in particular information technology, productivity, sustainability and the working patterns of employees (e.g. flexible working);
- demand for property is challenged, and is informed by long-term plans for meeting forecast demand; and

¹⁷ *Towards better management of public sector assets*, Sir Michael Lyons, December 2004; *Hot Property*, Audit Commission, April 2000; *Improving the efficiency of central government’s office property*, Report by the Comptroller and Auditor General, November 2007.

¹⁸ This was advocated by Sir Michael Lyons, who called for a stronger “strategic profile” of public sector asset management. See *Towards better management of public sector assets*, Sir Michael Lyons, December 2004.

- investment decisions which will lead to a more efficient estate over the longer term are given priority.

Box 1.B: Ministry of Defence

The Ministry of Defence (MOD), which has a large, diverse and highly dispersed estate, has a number of elements of good estate management. It has a discrete management function, Defence Estates (DE) responsible for managing the entire estate, separated from the customer demand for property and land, i.e. the centre of the department, the three Services (Army, Royal Air Force, Royal Navy) and the equipment procurement and logistics organisation. The MOD's estate objective is rationalisation towards fewer larger sites, and it has proactively published an Estates Development Plan setting out strategic plans to 2030 including the identification of core and surplus sites. However, DE's capacity to make and carry through strategic decisions across the whole of the estate is limited as major change programmes and investment funding are controlled centrally by MOD and are subject to competing defence priorities and resources.

1.28 Following the Lyons review,¹⁹ departments are producing Asset Management Strategies – for HM Treasury – and also Property Asset Management Plans, as part of the Office of Government Commerce (OGC) initiative High Performing Property (HPP).²⁰ The HPP initiative also introduced board-level property champions in each department. Yet, a review of the asset management strategies and plans by this workstrand showed that their quality is highly variable with little evidence that they were integrated with departmental business planning or included clear implementation plans.

1.29 Importantly, the OGC's remit – and therefore the HPP initiative – does not extend to much of government's operational estate (e.g. NHS, educational facilities, armed forces accommodation, research laboratories) or local government, and it has few formal sanctions available to it. In this way initiatives like the introduction of property champions can have only limited impact, and there remains great potential for more widespread board-level engagement on property issues across the public sector.

1.30 There is limited property expertise at the right level within many public sector organisations and limited capability to act as skilled commissioners of estates expertise from outside providers. Senior management needs to be able to draw on such expertise in planning and making property decisions. A 2006 study by the University of Leeds found "good examples of property assets being managed strategically but that expertise is confined to less than 25 per cent of CCG (central civil government) organisations."²¹

1.31 Where good value has been achieved through a strategic approach to property management, for example through the negotiation of large PFI contracts for the property portfolios of the Department for Work and Pensions and of Her Majesty's Revenue and Customs,²² high quality expertise has played a crucial part in this success.

1.32 The benefits of senior management engagement are illustrated in Box 1.C.

¹⁹ *Towards better management of public sector assets*, Sir Michael Lyons, 2004

²⁰ *High Performing Property: Routemap to Asset Management Excellence*, Office of Government Commerce, November 2006

²¹ *Improving Property Asset Management in the Central Civil Estate*, University of Leeds, April 2006

²² For further details see *Accommodation Services for the Department of Work and Pensions: Transfer of property to the private sector under the expansion of the PRIME Contract*, NAO, January 2005 and *PFI: The STEPS deal*, NAO, May 2004.

Box 1.C: Hampshire County Council

In Hampshire, the Chief Executive of the County Council – who is also the lead officer for the 74 local authorities in the South East of England in respect of property improvement and efficiency – provides strong leadership for the management of the county’s property portfolio of over 5000 buildings. By applying good property management practices they have been able to:

- realise over £300 million from the disposal of surplus land and property, which has been reinvested in other capital projects;
- put into place a rationalisation plan to cut the number of county council office locations from 64 to 12, by increasing utilisation rates as well as introducing flexible working patterns; and
- in a specific case, convert a former office block and multi-story car park to allow the number of staff it accommodates to double to over 1200. This will decrease energy consumption of the building by 50 per cent and – through more intensive use of communal areas as well as increased staff accommodation – increase the utilisation by 75 per cent.

A new central property function

1.33 This workstrand highlights the need for a new central property function to provide strategic leadership and support across the public sector. This would extend beyond OGC’s current remit to include all public sector organisations and would work with departments to help with rationalisation of their estate, including identification of their surplus and underutilised property assets. It should assist individual organisations across the public sector, when requested, in the delivery of efficient management of property including support for developing strategic property plans, and helping with complex projects and procurements.

Recommendation 1.1: Government should create a new central property function to drive efficient use of property across the whole of the public sector. It would be a small strategic resource, which would work closely with HM Treasury teams as well as with organisations across the public sector and, where necessary, draw on private sector expertise. Its main roles would be to provide:

- a strategic overview of rationalisation and disposal;
- property standards and advice; and
- coordination and oversight of property performance.

1.34 The function would not take responsibility for management of public sector property in the style of the former Property Services Agency. Ownership and management of property would remain the responsibility of individual organisations. Rather it would be a small strategic resource at the centre of government, which would work closely with departments and property stakeholders across government – for example, the OGC in relation to its existing civil estate

remit – as well as with professional bodies such as the Royal Institution of Chartered Surveyors.²³ Where appropriate it would commission work from the private sector.

1.35 Where rationalisation or efficiency gives rise to significant opportunities for land developments, choices need to be made between the desire to maximise the receipts from disposal and using the surplus land for social benefit, e.g. affordable housing. The central property function needs to work with the Homes and Communities Agency (HCA) to ensure that public sector organisations collaborate in the early identification and planning of significant land development to ensure that these different objectives are addressed.

1.36 At local level, more needs to be done to disseminate existing examples of good practice in local government, such as that shown in Box 1.C. It will be important to ensure that mechanisms are developed to encourage local authorities that are performing strongly to share and disseminate good practice amongst their peers, for example through a national programme coordinated by the Chartered Institute of Public Finance and Accountancy's (CIPFA) Asset Management Network and the Regional Improvement and Efficiency Partnerships (RIEPs).²⁴ Locally elected councillors also play a key role in driving forward the efficiency agenda in councils. Their engagement and leadership is vital to ensure that the significant potential efficiencies across the local authority estate are realised in practice.

Incentives and controls

1.37 A strong system of incentives and controls is key to efficiency. However, there is evidence that current incentives are not sufficiently effective.

1.38 The current framework of incentives enables government departments to reinvest the receipts from sales of surplus assets in new capital projects (previously sales of surplus assets were simply returned to central budgets).²⁵ It also includes two charges (depreciation and a cost of capital charge) which measure the opportunity cost of holding capital assets (these changes formed part of the introduction of resource accounting and budgeting).

1.39 Both measures, together with the normal costs of occupying property, have had limited effect at a time when, for many departments, capital budgets have been increasing considerably. Many sectors have been the focus of a deliberate effort to increase capacity and invest in physical infrastructure, partly to address legacies of under-investment, which has meant that there has been less incentive to dispose of surplus property.

1.40 The impact of the two charges has been further weakened because:²⁶

- depreciation and cost of capital charges are non-cash²⁷ ring-fenced costs in departmental budgets, the effect of this ring-fence is that savings may not be re-deployed to other areas of spending without explicit HM Treasury approval;²⁸ and

²³ The Royal Institution of Chartered Surveyors (RICS) have already produced the *RICS Public Sector Asset Management Guidelines: A guide to best practice* in 2008 in conjunction with government departments and other organisations, and are working with Communities and Local Government to develop similar guidelines for local authorities. For more details see www.rics.org

²⁴ The Asset Management Planning (AMP) Network was set up in September 2000 as a partnership between CIPFA and FPS (Federation of Property Societies) to support local authorities, together with police and fire authorities in developing their approaches to Asset Management and Capital Investment Strategies. For more details see www.cipfaproperty.net

²⁵ For further details see *The Economic and Fiscal Strategy Report*, 1998 and the Comprehensive Spending Review 1998.

²⁶ For further details see: *Alignment (Clear Line of Sight) Project (Cm 7567)*, HM Treasury, March 2009.

²⁷ Depreciation and cost of capital do not currently score (or do not score in the same way as in departmental budgets, accounts or estimates) in the National Accounts. As a result, these items are ring-fenced within resource budgets in a separate 'non-cash' budget, to protect the overall fiscal position by preventing funds from being switched into other expenditure (termed 'near-cash').

²⁸ *Consolidated Budgeting Guidance 2009-10*, HM Treasury.

- although recorded in local authority accounts, in most cases depreciation charges do not directly impact on council tax levels, reducing the incentive effect of these charges.

1.41 As an additional incentive, HM Treasury has introduced asset disposal targets, based on its assessment of the overall level of potential surplus for the public sector.²⁹ These targets have been effective in delivering asset disposals. But they have been of a “top-down” nature, and now need further refinement in order that they can be tailored to individual departmental circumstances and adequately reward efficient management.

Creating stronger incentives and controls

1.42 To some extent, more constrained capital and revenue settlements than in the past may provide additional incentives for property sales. But to deliver efficiencies in the medium term, departments have to make up-front investments that allow them to build and move to more efficient estates. They need to be strongly encouraged to make these investment choices.

1.43 HM Treasury teams routinely scrutinise and challenge departments’ performance and future plans as part of a continual drive to improve value for money. These discussions are most intense during the negotiation of departmental spending allocations. This process needs to be extended, and supported, so that it takes into account departments’ previous performance on property, and sets the capital spending allocation so that it drives greater efficiency.

1.44 HM Treasury teams will need better data on departments’ property performance, enabling them to provide a powerful challenge to departments. This was recognised by Sir Michael Lyons in his review of public sector assets.³⁰ The new central property function would coordinate the data required by HM Treasury.

1.45 The central property function (see paragraph 1.33) would also challenge departments in identifying underutilised and surplus assets, and would oversee the implementation of asset disposals across government. It would also provide assistance with complex and major property transactions (including projects where different public sector bodies cooperate).

Recommendation 1.2: In producing new departmental spending plans, HM Treasury should take steps to ensure that departments make choices in their capital investment plans which deliver a rationalised and more efficient estate. The new central property function would assist HM Treasury teams in this process.

1.46 The workstrand recognises that the current depreciation and cost of capital mechanisms are ineffective and agrees with the recommendations of HM Treasury’s Clear Line of Sight project.³¹ These include:

- HM Treasury working with the Office for National Statistics to remove the need for the current ring-fence around depreciation in departmental budgets.³² This will provide a greater incentive on departments to reduce depreciation costs

²⁹ The 2004 Spending Review established a target to dispose of £30 billion of assets by 2010, with £24 billion of this to come from local government.

³⁰ *Towards better management of public sector assets*, Sir Michael Lyons, 2004

³¹ For further details of the proposals for change, see *Alignment (Clear Line of Sight) Project (Cm 7567)*, HM Treasury, March 2009

³² This reflects the fact that the Office for National Statistics currently uses its own model to determine economy-wide, and public sector, depreciation data, rather than using the data collected by HM Treasury and departments in accordance with GAAP (Generally Accepted Accounting Principles). This means that, in National Accounts, GAAP depreciation is subtracted from public spending totals and the ONS depreciation measure is added in.

through better property management as any savings could be redeployed to fund other priorities;

- the removal of the existing non-cash cost of capital charge from departments' budgets;³³ and
- allowing cost of capital charging to be retained within departmental families (the organisations that central departments sponsor). Evidence from the Clear Line of Sight project has shown that cost of capital charging may have an incentive effect within departmental families as those organisations have the freedom to reallocate savings from a reduction in such charges into other parts of their budget.

1.47 Similar action should be taken to ensure that the financial frameworks within the wider public sector also create incentives on organisations to make efficient use of the property they hold. Local government has already taken steps towards depreciation charges for new assets funded by prudential borrowing. Consideration should be given to extending the impact of depreciation charges for local authorities and other relevant local delivery bodies to incentivise them to focus on the efficient management of their existing asset bases.

Recommendation 1.3: HM Treasury and Communities and Local Government should together investigate whether a depreciation mechanism for local authorities and other local delivery bodies would be workable, considering in particular the advantages and disadvantages of a depreciation charge and any potential impact on the public finances.

Good data and guidance

1.48 Efficient management is dependent on the availability of good information and the ability to interpret it meaningfully and use it effectively. In the case of property management, good data would inform senior management, and help ensure that property is given due consideration at a strategic level, as acknowledged by the NAO.³⁴

1.49 For example, property running costs are often not clearly identifiable in published accounts, and are recorded differently between organisations, with variations in how costs are defined and analysed. The reliability of existing data can also vary, suggesting that data collection requires careful oversight and guidance.

1.50 Several databases containing property information, and a number of initiatives aimed at improving measurement and driving performance,³⁵ are already in existence across the public sector. There are, however, no common standards or definitions for these datasets, which therefore limit their usefulness. This workstrand advocates a more considered approach to datasets and key performance indicators (KPIs) including benchmarks (by type of property e.g. administrative offices, courts, acute health sector) in order to facilitate the efficient use of property.

³³ If the current cost of capital charge were made a near-cash cost at a departmental level it would create a fiscal risk by allowing departments to increase real spending by more than expected and by creating a significant new misalignment between the accounts, estimates and budgetary frameworks.

³⁴ *Improving the efficiency of central government's office property*, NAO, November 2007

³⁵ The Electronic Property Mapping Information Service (e-PIMS) database, established by the OGC, is used to record property information for over 145 organisations.

1.51 It is important that property data requirements and standards include consideration of sustainability. The workstrand found that there was some inconsistency between the assessment of more efficient use of property and government sustainability targets.³⁶ These targets are currently under review. It is important that any new energy efficiency target is aligned with more efficient use of the government estate, for example by changing the target so that it is measured with reference to FTE employees rather than square metres of space.

1.52 The reporting of performance against property benchmarks, such as the use of office space per FTE employee, is mandatory for the central civil administrative estate.³⁷ Elsewhere, organisations with operational estates have also developed benchmarks to improve their performance. For example, the Higher Education Funding Council for England has shown how benchmarking can be used for educational institutions (see Box 1.D). This workstrand has also been very encouraged by the steps the Department of Health is taking to develop benchmarking for the NHS acute sector's estate, and supports these developments (see Box 1.E).

Box 1.D: Use of comparative data to improve performance for Higher Education estates

The Higher Education Funding Council for England, along with the other UK higher education funding bodies, is supporting the use of estates data to enable Higher Education Institutions (HEIs) to measure and compare the efficiency and effectiveness of their estate. Within this the HEIs can select groups of similar HEIs for comparison.

IPD Occupiers, specialists in property performance measurement, helped to develop and runs the Estate Management Statistics (EMS), collecting data from institutions, verifying it and distributing it to all participants. All the UK's institutions currently participate even though the use of the system is voluntary. The 2007 EMS annual report has concluded that in terms of space management a significant improvement has been achieved between 2001-02 and 2005-06, with the amount of non-residential space per full-time equivalent student in English HEIs falling by about 12 per cent to 7.9 square metres.³⁸

³⁶ See footnote 16 in this chapter.

³⁷ OGC has responsibility for the central civil estate. This comprises the property required by The Executive to discharge its functions. The definition of the civil estate is derived from the 1996 Efficiency Scrutiny of the Civil Estate.

³⁸ HEFCE and IPD occupiers. See www.hefce.ac.uk

Box 1.E: The development of benchmarks for the NHS acute sector

The Public Value Programme (PVP)³⁹ and the new NHS Premises Assurance Code (a new framework for managing property) are focused on improving utilisation of the NHS estate in order to increase efficiency and release savings. The most important developments are:

- new property benchmarks for the acute sector, using existing data, to measure the performance of trusts providing acute hospital services; and
- incentives for NHS organisations to review property performance and take action if performance is poor.

Benchmarking data would allow trusts to compare their property utilisation costs with those of other providers, and also enable commissioners of health services to understand which providers are relatively more efficient. Providers who are less efficient will be under pressure to reduce costs in order to remain competitive. These developments would be enhanced if they were linked with the outputs from the study in London (see Box 1.A).

The approach should be extended beyond the acute sector to primary care, mental health and ambulance trusts.

1.53 The five audit agencies and CIPFA have already done much work to develop benchmarks.⁴⁰ These cover the whole public sector, including local government and activities undertaken by local authorities in partnership with other local delivery bodies.

Intelligent targets and performance information

1.54 The availability of good information about the performance of property should allow the setting of tailored “intelligent” targets to achieve a more efficient and effective estate. This information would enable HM Treasury to allocate funding so that it rewards good performance and encourages departments to invest in a more efficient estate.

1.55 The central property function would advise on the setting of intelligent targets and help develop the necessary benchmarks and performance standards. It should work closely with HM Treasury teams, providing information and expertise, so that the targets could be incorporated into departmental spending plans.

1.56 The central property function should set clear guidance to improve the quality and consistency of information about public sector property. It should help define and monitor the collection and publication of certain minimum information to ensure an accurate government-wide picture of the public sector’s property and to assess performance. This would include:

- information, based on common definitions, about property holdings and running costs, to encourage greater transparency;
- information about all property held, showing for each asset whether it is “core” and must be retained, “surplus” and will be disposed of in future or “intermediate” where a final decision on its future use is pending;

³⁹ The Public Value Programme was launched at Budget 2008 to investigate the potential for reforms that will achieve savings and better value for money in key areas of public spending.

⁴⁰ *Value for Money in public sector corporate services*, Audit Commission, National Audit Office, Northern Ireland Audit Office, Wales Audit Office and Audit Scotland, May 2007

- performance of property against key indicators including benchmarks (by type of property);
- goals and objectives for the next one to three years including plans showing how and when performance benchmarks would be achieved; and
- a clear demonstration that sustainability, productivity, service quality and other related issues are integrated into plans for property management.

1.57 The role of the central property function in monitoring data and setting guidance would be adapted for the wider public sector to take into account the degree of independence that such organisations have from their sponsoring departments. It would also ensure that, as far as possible, there is consistency and comparability across the public sector, and that data burdens are minimised.

1.58 However, it is clear that there is a need for better data within the wider public sector too, and for the use of benchmarks to be made more consistent and widespread. Regional Improvement and Efficiency Partnerships (RIEPs) would be a useful mechanism to drive this. For local public services,⁴¹ benchmarks could be linked with the “use of resources” assessments carried out as part of the new inspection regime for local government - which requires the Audit Commission to inspect against the Comprehensive Area Assessment (CAA).⁴²

1.59 In addition, the collection and publication by the wider public sector of information about core, surplus and intermediate assets, supported by CIPFA, should help to promote shared approaches to the use of property.

1.60 These different sources of information, once aligned, should provide local authorities with an integrated and comprehensive source of support to ensure that property is efficiently managed. This in turn will increase accountability within local government, raise standards and – through more efficient use of property - improve outcomes at local level. Local authorities should consider, together with their partners, using such data to develop local targets for improving asset management.

Recommendation 1.4: The public sector should be more consistent and transparent in the data it collects and publishes in relation to property management and usage. In particular organisations are encouraged to publish information about the core, surplus, and intermediate property assets held. All local public services should also be encouraged to follow best practice and use the audit agencies’ value for money indicators, which should be closely linked to the Audit Commission’s ‘use of resources’ assessment.

Collaboration

1.61 There are over 1500 individual property centres (organisations that manage property directly) across government.⁴³ The NAO has highlighted the need to improve coordination by, for example, adopting opportunities for co-location.⁴⁴ But organisational barriers can be difficult to

⁴¹ In this report local public services are defined as those subject to inspection by the Audit Commission.

⁴² The new Comprehensive Area Assessment (CAA), implemented in April this year, as part of a new inspection regime for local government, includes a “use of resources” assessment, as part of which a score is assigned to local partners for the quality of their management of assets. The CAA also takes account of how local partners have been working together to deliver their Local Area Agreement (LAA). See www.audit-commission.gov.uk

⁴³ This includes all property centres in the central civil estate, local authorities, health trusts, fire and police authorities and others.

⁴⁴ *Improving the efficiency of central government’s office property*, National Audit Office, 2007.

overcome. This issue arises both at the national and local levels where departments and other bodies often do not look for the best fit across the whole of the public sector, and instead manage property in isolation.

1.62 Greater collaboration will improve the quality of service for citizens,⁴⁵ as well as achieve significant economies of scale, for example in the procurement of facilities management (see Box 1.F). The opportunity for co-location of the office estate is particularly apparent for the office estate around Westminster, where around 15 per cent of the total central government office space (around 1.2 million square metres) is located in close proximity to the Houses of Parliament.⁴⁶

Box 1.F: Collaboration in facilities management (FM) procurement

The Department for Environment, Food and Rural Affairs (Defra) has developed an innovative approach for procuring FM across the central department and its executive agencies. The 15-year contract with a private sector partner, who is financially incentivised to reduce the overall cost of the estate, has a value of approximately £900 million and is expected to deliver £126 million of annual cost reductions.

This has largely been achieved by moving from a localised approach, where each business unit scoped and delivered its own FM requirements, to a partnership arrangement with joint governance and collective ownership of the Defra property strategy. By adopting a collaborative approach that works across organisational boundaries, Defra has been able to use its estate expertise to control costs centrally and ensure there remains a focus on the agreed business objectives - including efficiency and value for money, service improvement, transforming the work environment and sustainability – while maintaining good relationships with its executive agencies and private sector partner.

1.63 There are similar opportunities in other large urban areas with a large public sector presence for developing regional “hubs”, where the public sector can share property. The West Midlands initiative,⁴⁷ if extended to involve wider public sector partners, could be an encouraging development.

1.64 But despite the clear benefits, organisations frequently fail to overcome the barriers to collaboration. The causes can be as simple as the lack of common systems for IT and security, but also arise from a lack of information about the opportunities available or, at a deeper level, resistance to the sharing of property.

1.65 The central property function would play a role in developing cross-government initiatives to overcome the barriers to sharing of property, such as those presented by IT and security. It would also work to promote regional planning across the public sector, providing assistance when requested and facilitating collaboration where opportunities arise. More uniform and publicly available information will also be important in enabling organisations to look for opportunities for co-location or other types of collaboration.

⁴⁵ *Service transformation: a better service for citizens and business deal for the taxpayer*, Sir David Varney, December 2006.

⁴⁶ Office of Government Commerce, e-PIMS database.

⁴⁷ Civil Service in the West Midlands (CSWM) is a pilot of Civil Service in the English Regions that has adopted the principle of a regional estates strategy.

1.66 Greater collaboration also needs to be encouraged at the local level. Because of their leadership role with other local service providers, local authorities should be pivotal in developing such collaborative approaches. This is especially relevant where the provision of services is linked and where assets are of a similar type. Local strategic partnerships (LSPs)⁴⁸ should be encouraged to play a role in the development of asset management strategies across different local or regional providers. Ideally this should lead to the publication of local area strategies for the public estate.

1.67 For local public services, the role of the Audit Commission is particularly important in improving performance. In this respect the stronger focus on use of resources and on locally driven cross-partnership working, which is being introduced as part of the new delivery and inspection regime for local government, is welcome.

Summary and conclusion

1.68 This workstrand has established the key areas that need to be addressed to achieve a well-managed and efficient estate across the public sector. They are:

- focused and engaged senior management with access to the right expertise;
- a system of strong incentives and controls for efficient property use;
- good data, guidance and KPIs; and
- collaboration and sharing of property across organisational boundaries.

1.69 To this end this workstrand recommends:

- a new central property function to help drive efficient use of property across the whole of the public sector;
- steps to facilitate investment in property transformation; and
- actions to achieve change among local authorities and their partners.

1.70 The recommendations are integral with those relating to accountability and performance management set out in the Executive Summary of the *Operational Efficiency Programme: final report*.

1.71 The property strand has identified the potential for significant running cost savings and capital receipts from the disposal of surplus property. However, without a strong concerted drive from the centre, and a clear commitment to change from senior level leadership, these efficiency savings will not be realised.

1.72 Accordingly, the priorities for implementation should be:

- establishing the new structures recommended in this report;
- initiating the development of core datasets and benchmarks, in cooperation with appropriate professional and other organisations;

⁴⁸ LSPs bring together representatives from all the organisations (e.g. health, police, schools and fire authorities) responsible for delivering services locally. The LSP sets and delivers the priorities across the locality through targets set out in a local area agreement (LAA) which is agreed with central government.

- working with departments (and, through them, with the bodies they sponsor, for example NHS trusts and local authorities) to put in place the frameworks and mechanisms needed to ensure a step change in the efficient management and use of property, including facilities management;
- working with audit and inspection bodies to ensure new standards and/or targets are reflected in their audit/inspection regimes;
- ensuring HM Treasury works with departments to develop a good understanding of their property performance, so that targets are intelligent and the capital spending allocation is set so that it drives greater efficiency; and
- promoting cross-department, cross-agency collaboration and sharing of property, at national, regional and local levels.

1.73 There is much work to be done to take these recommendations forward. The creation of the new structures needs to be planned well by suitably skilled experts and put in place as soon as possible after Budget 2009.

1.74 The estimated property efficiencies are ambitious and represent a significant challenge for the whole public sector. However, taken together the recommendations from this workstrand will help to make this goal achievable and realistic.

A

List of meetings

A.1 The OEP property workstrand consulted a number of key stakeholders from the public and private sector through a process of inviting contributions, holding meetings and visits. The OEP is grateful to those individuals and organisations that offered contributions and gave valuable insights into different aspects of property management practice.

A.2 At an early stage Lord Carter wrote to a large number of professional bodies and other organisations to invite submissions of evidence. In addition the workstrand engaged with a wide range of officials from HM Treasury as well as other government departments and local authorities.

A.3 The property strand held meetings with the following organisations and individuals:

Public sector

- Audit Commission
- Association of Chief Estates Surveyors and Property Managers in the Public Sector (ACES)
- Birmingham City Council
- Camden Council
- CIPFA (The Chartered Institute of Public Finance and Accountancy)
- Civil Service West Midlands
- Defence Estates
- Defence Supply and Distribution Agency (DSDA)
- Essex Fire and Rescue Service
- English Heritage
- The Baroness Ford of Cunninghame
- Hampshire County Council
- Her Majesty's Courts Service
- Hertfordshire County Council
- Homes and Communities Agency
- 4Ps
- Leeds University
- Local Government Association
- London Borough of Hounslow
- Metropolitan Police
- Monitor
- National Audit Office
- NHS London
- Norfolk County Council

- Metropolitan Police
- Monitor
- National Audit Office
- NHS London
- Norfolk County Council
- Office of Government Commerce
- Office of National Statistics
- Ofsted
- Partnerships UK
- Regional Improvement and Efficiency Partnership South West
- Royal Air Force
- Royal Mail Group
- Transport for London
- Valuation Office Agency
- Welsh Assembly Government
- Westminster City Council

Private sector

- Annington Homes
- aAIM Group
- Business Services Association
- British Telecommunications plc
- Capita
- Citibank
- City Refrigeration (UK) Ltd
- Colliers CRE
- Concerto Consulting
- Corporate Value Associates
- Deloitte
- Deutsche Bank
- Drivers Jonas LLP
- DTZ
- EC Harris
- Ernst and Young

- Frontier Economics
- Grant Thornton
- GVA Grimley Ltd
- Institute of Asset Management
- Interserve
- IPD Occupiers
- King Sturge
- Kroll Talbot Hughes
- Land Securities Trillium
- Morgan Stanley
- PricewaterhouseCoopers UK
- Royal Institute of Chartered Surveyors
- Rothschild
- Serco
- Supporta TerraQuest

B

Bibliography

B.1 This bibliography lists the main published documents and sources the property strand has used. In addition, it has drawn on a variety of unpublished documents, briefings and presentations, which are not referenced here.

Table 1.A: Bibliography

Organisations	Document Name	Date
Actium Consult	Total Office Cost Survey	2008
Audit Commission	Hot Property	2000
Communities and Local Government	Homes for the future: more affordable, more sustainable - Housing Green Paper	2007
Communities and Local Government	Facing the housing challenge: Action today, innovation for tomorrow	2008
Communities and Local Government	Building on strong foundations - A framework for local authority asset management	2008
Communities and Local Government	Local Government Financial Statistics England, No. 18	2008
Deloitte and 4Ps	Regeneration Guide	
English Heritage	Managing Local Authority Heritage Assets	2003
HM Government	National Asset Register	2007
HM Treasury	Alignment (Clear Line of Sight) Project (Cm 7567)	2009
HM Treasury	Consolidated Budgeting Guidance 2009-10	2009
HM Treasury	Financial Reporting Manual 2009-10	2009
HM Treasury	Managing Public Money	2007
HM Treasury	2007 Pre-Budget Report and Comprehensive Spending Review	2007
HM Treasury	Budget 2008	2008
HM Treasury	Pre-Budget Report 2008	2008
HM Treasury	Public Expenditure Outturn White Paper	2008
HM Treasury	Public Expenditure Statistical Analyses	2008
HEFCE/HEFCW/SHEFC/E&L	Evaluation of the Estate Management Statistics (EMS) Service	2004
IPD Occupiers	Property Benchmarking 2007: Update, key findings & recommendations	2008
Sir Michael Lyons	Towards Better Management of Public Sector Assets	2004
Sir Michael Lyons	Well Placed to Deliver? – Shaping the Pattern of Government Service	2004
Metropolitan Police	Property for Policing - Providing the best estate for borough based policing	2007
National Audit Office	Improving Corporate Functions Using Shared Services	2007

National Audit Office	Managing Resources to deliver better public services	2003
National Audit Office	Improving the efficiency of central government's office property	2007
National Audit Office	Accommodation Services for the Department of Work and Pensions: Transfer of property to the private sector under the expansion of the PRIME contract	2005
National Audit Office	PFI: The STEPS deal	2004
Office of Government Commerce	Better Measurement, Better Management	2006
Office of Government Commerce	High Performing Property – Routemap to Asset Management Excellence	2006
Office of Government Commerce	High Performing Property – Implementation Plan	2006
Office of Government Commerce	Working Beyond Walls	2008
Office of Government Commerce	Working together to deliver better value	2008
Office of National Statistics	United Kingdom National Accounts: The Blue Book	2008
Public Accounts Committee	Improving Corporate Functions Using Shared Services	2008
Public Accounts Committee	Managing resources to deliver better public services	2005
Public Accounts Committee	Improving the efficiency of central government's office property	2008
Barry Quirk	Making assets work: The Quirk Review of community management and ownership of public assets	2007
Royal Institution of Chartered Surveyors	Public Sector Asset Management guides	2008
Royal Institution of Chartered Surveyors	Property in the Economy: <i>a digest and review of key data and statistics</i>	2008
UK public sector audit agencies	Value for Money in Public Sector Corporate Services	2007
University of Leeds	Improving Property Asset Management in the Central Civil Government Estate	2006
Sir David Varney	Service transformation: A better service for citizens and businesses, a better deal for the taxpayer	2006
Westminster City Council	Asset Management Plan and Property Strategy	2008
4Ps (in collaboration with Deloitte)	The estate we're in - driving better value from property	
4Ps (with PricewaterhouseCoopers UK)	Making change stick	

ISBN 978-1-84532-597-8



9 781845 325978 >