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Executive Summary

Background

1.1 Public services are evolving in a new context of rising public expectation, increasing focus on improving efficiency and value for money, and the continuous emergence of new technologies. An asset base currently worth around £658 billion across the public sector underpins these services, and needs to develop to reflect and support their evolution.

1.2 Since 1997, the aim of the Government has been to increase the rate of investment in public infrastructure, in recognition of past under-investment. Asset management is a part of this story: selling surplus assets to free resources for new investment; transferring ownership of assets to the private sector where this secures access to new funding and skills, or transfers risk; identifying and capitalising on hidden assets; and increasing value for money from retained assets. The Government has already implemented a range of measures that encourage and require the adoption of good asset management practice – in particular a National Asset Register, and a new resource accounting and budgeting framework.

1.3 Public services are moving from the traditional model in which particular services are associated with particular buildings and delivered between preset hours. Increasingly we are seeing public services joining up and being delivered in new and innovative ways – outside the confines of traditional structures and divisions, through new technologies and operating models and personalised to the needs of the user – the pupil, citizen or patient. The Government's strategy for increasing efficiency in the public sector gives further impetus to these developments. There is a need to get better value for public funds and look to new opportunities for private investment to reduce the burden on the taxpayer.

1.4 Accelerating this trend and developing the public services of tomorrow requires a fresh look at what constitutes a public service and how it delivers public value. Central to the task is understanding how public assets are best deployed. It was within this context that, in July 2004, the Chancellor invited me to consider the estate implications of the efficiency and relocation reviews. In particular, I was asked to make proposals on how to improve asset management in the public sector to generate efficiency savings and to contribute to the Government's objective of £30 billion of asset sales by 2010.

Methodology and Scope

1.5 This has so far been a short-life exercise and the time in which to probe detail was limited. As such, this study does not seek to provide a final analysis of asset management but, points the way towards actions that Government could take to accelerate the adoption of good asset management practice in the public sector.

1.6 I invited responses from government departments on their asset holdings and those of their agencies and sponsored bodies. I asked how these were being managed, and about plans for disposal. A picture of asset management in local government was built up from contributions from the Office of the Deputy Prime Minister (ODPM), the Local Government Association (LGA) and selected local authorities. In order to complete the picture, I also elicited views from other

organisations with particular expertise or interest. In particular, my study team worked alongside the Efficiency Team within the Office of Government Commerce (OGC), reflecting the close links between my work and the Government's efficiency programme.

1.7 To capture the full range of potential opportunities, I took a broad interpretation of 'assets' – one which went beyond just land and property to include intangibles such as intellectual property, the radio spectrum and government shareholdings. I looked across the public sector, taking an interest in government departments, agencies, non departmental public bodies (NDPBs) local authorities and public corporations. I also noted assets which formally lay in the private sector but which were supported in large part through public funds – for example, in universities and housing associations.

1.8 This review consulted organisations across the UK but I recognise that in devolved areas, it will be for the devolved administrations to decide how to manage and dispose of their assets. I would encourage close working between the Treasury and the devolved administrations to share good practice and information to improve public sector asset management across the UK.

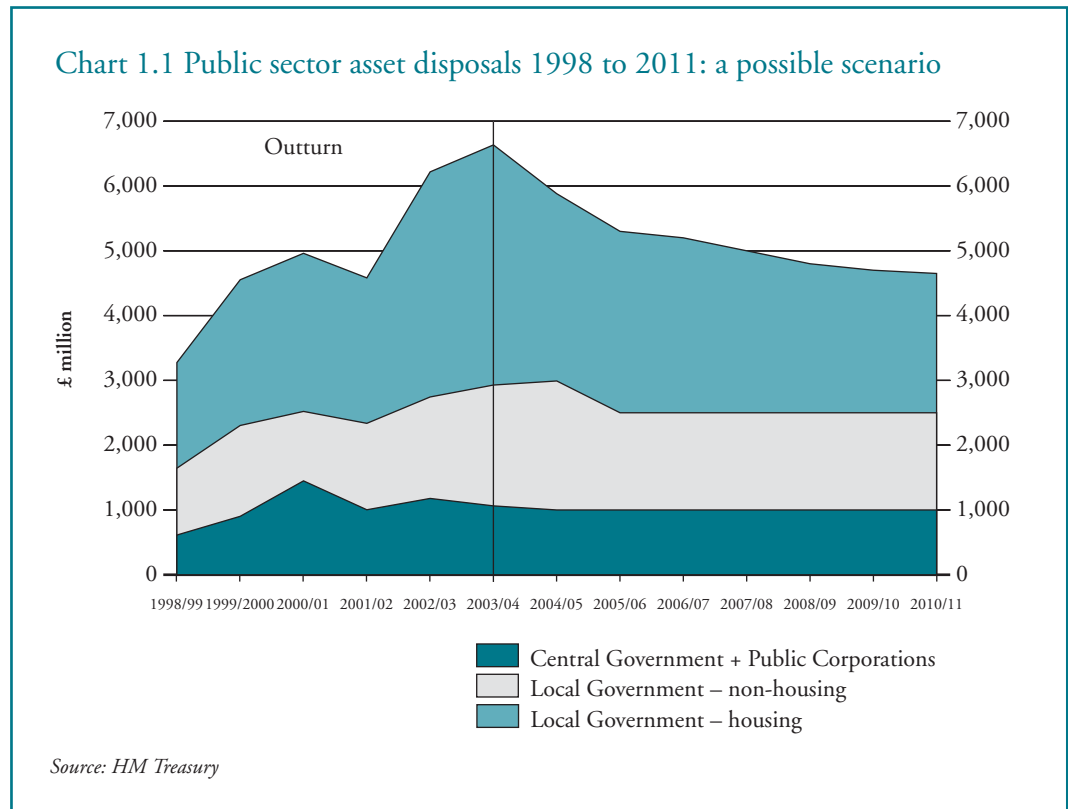
1.9 In investigating asset management in the public sector, I sought to:

- **Put the £30 billion disposal challenge in context** – What does it mean? Why is it important? How does it relate to Government's aims more generally for managing its capital account, and to wider economic and social objectives, for example, regeneration and social housing?
- **Quantify the efficiency gain** – What is the scale of the current asset base and what is the likely trend in future disposals? How stretching is the £30 billion disposal challenge? What is the scope for further efficiency savings through better management of retained assets and the identification and exploitation of intangible assets? Can increased private investment reduce the call on taxpayers' funds?
- **Assess current incentives** – What is sound asset management? What is current practice? Do departments, local authorities and other public bodies have the right incentives to manage their assets well?
- **Investigate current capacity** – Do public bodies have the right skills, systems and models of practice? Is the finite expertise in capital planning deployed most effectively?
- **Gauge the effectiveness of coordination** – How well does the system deliver economies of scale by coordinating asset management and disposals across administrative boundaries?

The £30 billion challenge

1.10 In the 2004 Spending Review the Government announced an objective of disposing of £30 billion of public assets by 2010.

1.11 This very broadly speaking would continue an existing trend in which central government has been disposing of assets at the rate of some £1 billion a year, and local government at about £4 billion a year, much of this in the form of public housing transferred through the right to buy or large scale voluntary transfer. My initial work suggests that it is possible for these trends to be continued, though with receipts from housing likely to decline, and a range of assets already sold, the objective is challenging.



1.12 The current rate of disposals is composed of two very different kinds of activity: the sale of surplus assets (for example, redundant buildings) and the transfer into private ownership of assets, some of which will have a continuing use (such as social housing). Selling surplus assets releases resources for reinvestment; transferring assets allows access to private capital, private sector business disciplines and the transfer of risk. Both are important, but they serve different purposes. Since achievement of the £30 billion objective depends to a considerable extent on continued engagement with the private sector, I take it as read that the search for new ways of accessing private investment and expertise is a critical and legitimate part of this exercise.

1.13 It is also worth noting that the £30 billion figure does not capture all disposals and transfers in which the Government has an interest. For example, the Government's accounting rules dictate that the proceeds of the sale of intangible assets like radio spectrum cannot be counted in the same way as disposals of land and buildings, and thus they would not count towards the £30 billion objective, but would allow government to reduce its net debt. This is what happened when £22.5 billion was raised from the auction of 3G mobile phone licences in 2000.

1.14 It is of course important to note that disposals are not the be all and end all of asset management. A key component of asset management is to take a strategic view of which assets are best retained and efficiently exploited, as well as to identify those which should be disposed of to generate resources for reinvestment. For example, my initial work suggests the scope for efficiency gains of at least £760 million a year by 2010-11 as a result of more efficient management of offices alone. (Further work is needed to establish how much of this would be additional to planned savings.)

1.15 Secondly the manner of disposal is critical. Existing guidance to departments requires disposal of surplus property within three years and deters speculation. But there can be real problems with seeking quick disposals, not least the danger of fire sales. The guidance accepts that value may

sometimes be increased by securing planning permission or by partnership with the private sector in which the taxpayer secures a share of future development gains. These are important areas where, as I note later, public sector expertise is thin on the ground.

1.16 Other factors affect the scope to realise value on disposal. The future behaviour of property markets in different parts of the country will have a profound impact, but is unpredictable. Lastly, the broader framework of policy – for example in relation to social housing – suggests that it is not in fact the Government's aim to maximise disposal receipts in every case.

1.17 In the light of these various caveats, does it make sense to aim for £30 billion of asset disposals by 2010? I believe it does. The current rate of disposals can be seen as a broad indicator of the extent to which the public sector takes asset management seriously, in an environment in which the incentives for doing so have been improved in recent years – for example, by requiring departments to identify and register their assets, show them on their balance sheet, and bear costs for holding them. If there is scope for the public sector to tackle asset management more energetically – and that indeed is a key finding of my study – then there is reason to suppose that the current rate of disposals can be broadly maintained and, in some areas, even increased. But there are attendant risks and uncertainties.

1.18 In conclusion, I believe that the £30 billion objective is achievable and realistic, and can be realised consistent with broader Government objectives. But it is also challenging and will require the public sector to raise its game.

Key findings and recommendations

1.19 It is clear to me that much progress has been made in asset management and disposal in government. Resource accounting and budgeting in central government has made a difference, as have recent new incentives in local government, along with the requirement for local authorities to produce asset management strategies. Many government departments have estate rationalisation plans in progress and I was struck by the forward thinking of some local authorities, particularly in pursuing area wide strategies for land and buildings, involving joined up working with other public agencies.

1.20 There are interesting models of practice that bear closer examination and possible extension. I have been interested in particular by the work of English Partnerships in catalysing the regeneration of run-down estates and seeking to minimise the call on public funds; the example of the Department of Work and Pensions' PRIME contract as a model for outsourcing estate management; and the work of the new Shareholder Executive in bringing greater scrutiny and challenge to bear on the running of businesses which government owns in whole or part.

1.21 It is also clear that there is room for improvement. Asset management is a key part of business planning which connects at strategic level decisions about an organisation's business needs, the deployment of its assets, and its future investment needs. The government has laid the foundations for a rational approach, but the evidence suggests that asset management does not yet have the strategic profile it needs. In particular:

- Asset management seems to be pursued in a narrow context within departments, not fully joined up with wider strategic thinking on resource allocation, investment needs and the Government's efficiency programme. In central government, despite various estate strategies in place, I have seen little evidence of asset management planning owned at board level.

- There is not a consistent approach to identifying, valuing and challenging the use of all assets across the public sector – in particular intangible assets such as intellectual property.
- Area-wide asset management, crossing administrative boundaries, seems to be in its infancy. I have seen good examples in local government, but central departments are largely working within their boundaries, meaning that opportunities for economies of scale, particularly in London, are being lost.
- It is not clear that public agencies are as focussed as they ought to be on the ongoing maintenance of their assets.
- Expertise seems to be in short supply and, at the centre, it is fragmented across several agencies. In particular, there is a need for greater expertise in maximising disposal values and in constructing effective partnerships with the private sector.
- There are opportunities to be explored for linking the need to extract greater value from public assets with unmet demand for vehicles for investment in property.

1.22 My recommendations flow from this analysis and are grouped around the themes of:

- A stronger, more rigorous asset management and planning framework building on the foundations already laid;
- A focussed delivery strand within the Government's efficiency programme, dedicated to the achievement of the asset disposal objective and generating efficiency savings; and
- Improved deployment of asset management expertise within the public sector.

1.23 Recommendations to strengthen the asset management and planning framework and improve asset management capacity suggest an important co-ordinating role for the Treasury and the Office of the Deputy Prime Minister. The recommendations to assist delivery of the Government's asset disposal objective and generate efficiency savings suggest actions by departments themselves, with support from the OGC Efficiency Team. Some of my recommendations are aimed at local authorities, but they should consider to what extent my wider analysis might also apply to them. I would invite the devolved administrations to review the implications of my report for their activities. In similar vein there may also be implications for parts of the education, housing and other sectors but with assets outside the public sector.

Creating a more rigorous asset management and planning framework

1.24 There are already a range of incentives and requirements in place to encourage departments to adopt sound asset management practices. For example, the Government's resource accounting and budgeting methodology requires assets and associated capital charges to be identified on balance sheet whilst Departmental Investment Strategies set out each department's plans to deliver the scale and quality of capital stock needed to underpin its objectives. The Treasury has also made it clear that, within certain constraints, departments are free to retain the receipts from asset disposals.

1.25 The evidence I have gathered suggests that these incentives have had some impact, but have so far proved less galvanising than one might expect. A starting point must be a stronger link between asset management and investment planning throughout government. This government is committed to increasing capital investment in public infrastructure. In its spending reviews, the Treasury takes account of how well departments are managing and disposing of assets in determining capital allocations. But this linkage must be strengthened by improving the quality of information that feeds in to the spending review process.

1.26 Building on reforms to date, departments should be required to produce detailed asset management plans that are owned by the Finance Director and regularly considered at board level. Such plans should provide a sounder basis for departmental business planning and, at a strategic level, an enhanced government-wide understanding of efficiency gains possible from better use of existing assets and the potential to recycle disposal proceeds to fund new investment.

1.27 Secondly it is vital that the existing incentives regime is properly understood and working effectively. The new resource accounting and budgeting framework introduced by the Treasury has been in place since 2003 and may therefore take some time to bed down fully. I have noted in particular the National Audit Office view that the new framework is not yet influencing departmental behaviour at board room level. Departments raised a number of concerns with me, including fear of Treasury clawback as a deterrent to the disposal of assets, and a view that capital charges may not have sufficient bite. They also raised some technical concerns, for example whether current accounting treatment deters the disposal of heritage buildings. It is not clear to me how material these points are: the Treasury has, for example, relaxed rules governing capital receipts. What is certain is the need to clarify any remaining uncertainties in these areas and ensure that the current incentives have a sufficiently sharp impact on behaviour.

1.28 In particular, there is a need to ensure that incentives are properly located within departments. Even when departments are aware of the freedoms and incentives at corporate level it is not clear to me that these are always cascaded down the chain so that individual budget holders within departments, agencies and sponsored bodies have sufficient incentive to efficiently manage the assets that underpin their business needs and to dispose of others. There is a balance to be struck between allowing budget holders to benefit directly from their efficiency, and the need for corporate HQ to be able to redirect resources into new priorities as necessary. But it is not clear that the right trade off has yet been achieved.

1.29 In local government, the incentives for asset management have been improved and are subject to further development. In addition, ODPM's work with local government in recent years to develop asset management and capital planning have had an impact. However, whilst there has been improvement in local government performance in this area, the picture is still mixed, with some local authorities much more advanced than others and with some concerns expressed by the Audit Commission. There is a real need to ensure the faster spread of good practice. The Government should consider what steps need to be taken to ensure that more local authorities can take advantage of the framework of incentives now in place, or in development.

Recommendation 1

The Government should review the linkage between investment and asset management at a strategic level, to ensure a national framework which balances planning for future capital investment, from both public and private sources, with full exploitation and maintenance of existing assets.

As part of this process, the Government should strengthen the dialogue with departments on asset management in the run up to future spending reviews; and consider the implications for bodies whose assets lie outside the public sector, but which receive public funding.

Action: Departments with the Treasury

Recommendation 2

Departments should be required to develop asset management strategies driven by their business plans, which are the responsibility of finance directors and considered at board level. These should cover assets in the control of departments, their agencies and sponsored bodies.

Action: Departments

Recommendation 3

The Government should confirm and where necessary strengthen the incentives for disposal and efficient management of assets, in particular as follows:

- There is an urgent need to reaffirm existing budgetary freedoms and incentives for departments to dispose of assets, and to realise the benefits of efficient asset management;
- Departments must cascade freedoms and flexibilities throughout their organisations, agencies and sponsored bodies to ensure that there are sufficient incentives at business unit level to manage and where necessary dispose of assets;
- Departments must ensure that managerial responsibilities for asset management within public organisations are clear; and
- The Government should examine the scope for strengthening the incentive effects of the resource accounting and budgeting framework on asset management.

Action: Departments with the Treasury

1.30 Private companies have shareholders that provide scrutiny of company management and perform a challenge function. This acts as a powerful incentive for company boards to develop and implement active asset management strategies to ensure their asset base is efficiently used and supports their business objectives. The Shareholder Executive advises DTI Ministers, and other Government departments, on the management of their respective shareholdings, and other financial interests, in a range of businesses including the Royal Mail, BNFL, British Energy and the UK Atomic Energy Authority.

1.31 The Shareholder Executive tests a new approach for bringing external scrutiny and challenge to bear. This model of intervention is still in its infancy but may offer lessons which can be applied to other areas of business in which Government has a stake, or where lines of accountability or control may be unclear, for example in Trust Ports.

1.32 I have taken particular note of examples where local government has played a lead role in maximising the value of local public sector assets through co-ordination of services and the sharing of infrastructure with other local service providers.

1.33 This type of local co-ordination has improved value for money in the use of assets and acted as a catalyst to develop joined up customer-focussed services. It should be encouraged and supported. The case has been made that local authorities are willing to embrace a lead role in this work, but that public agencies display varying enthusiasm for such joint activity at local area level, and have no obligation to engage with local authority partners in developing local asset management plans.

Recommendation 4

I welcome the role that local authorities are taking in leading local asset management plans. This role should be recognised, encouraged and, where possible, strengthened through the spread of good practice models.

Central government needs to convey a clear expectation of Departments and other public agencies that they should engage with their local government partners in developing and delivering local asset plans.

Action: Local authorities, Departments, with ODPM

1.34 I also found other good models of coordination in local asset management. English Partnerships works with public and private sector partners to support sustainable growth in England. Amongst other things, it acts as a catalyst for development through acquiring and preparing sites for development by their public and private sector partners. I have been struck by elements of their approach, including a determination to bring in private investment where this can substitute for public subsidy, and the careful packaging and phasing of disposals to maximise value. The model used by English Partnerships has had some success in unlocking the value of complex run down sites and more work needs to be done to determine whether there are elements of the model that could be applied elsewhere.

Recommendation 5

The Government should examine the scope for extending elements of the approach exemplified by English Partnerships, both in relation to the regeneration of complex sites and more widely in optimising the value of disposals.

Action: Treasury on advice from new Task Force (see recommendation 9).

Focussing on delivering the efficiency gain

1.35 If the Government is to meet its £30 billion asset disposal objective, it will need to take concerted action at departmental level, and do more to exploit private investment. Improvements to the overall framework of incentives, as discussed above, are essential. But they need to be accompanied by urgent action in the context of the Government's current work to improve efficiency in the public sector.

1.36 In order to ensure that asset management is integrated with wider efficiency considerations and is able to draw on existing expertise and coordination capacity, departments should take forward their planning as part of the Government's efficiency programme, with clarity about how each department will contribute to the Government's objectives for asset management including the objective of £30 billion of disposals by 2010.

1.37 It is clear to me from my examination of the evidence that there are a number of areas in particular where planning should be taken forward with some urgency.

- **Defence** – Strategic changes underfoot, including the Ministry of Defence’s reviews of core sites, service HQs and training needs, suggest significant opportunities to dispose of assets, going beyond the existing target of £560 million by 2007/08. I have also noted the opportunities presented by the large holdings of equipment and stock;
- **The National Health Service** – A recent exercise identified £800 million worth of surplus hospital estate that has now been transferred to English Partnerships for disposal. The NHS is highly devolved and the challenge for the centre is to take a strategic approach to identifying and disposing of subsequent tranches of assets that will become surplus as a result of service changes;
- **Northern Ireland** – Partly a legacy of the Troubles, the public sector occupies a much bigger part of the economy in Northern Ireland than in other parts of the UK. There are considerable opportunities to dispose of assets and this will be a matter for the devolved administration when it returns;
- **Justice** – courts, prisons and police services account for a significant proportion of public assets. Current and planned service changes offer opportunities for reconfiguring the use of land and buildings;
- **Opportunities for new investment by the private sector.** Housing is one policy area where substantial progress has been made in replacing public investment with private investment. Progress has been made in other policy areas including education and highways but there is undoubtedly greater scope for new initiatives to reduce the strain on the public purse;
- **Opportunities within publicly owned business.** The Government should consider what further steps can be taken to challenge and scrutinise the asset management decisions of publicly owned businesses such as Trust Ports, bearing in mind lessons from the approach being pioneered by the Shareholder Executive; and
- **Other opportunities.** In this short exercise I have not been able to air the full extent of possible disposals and other opportunities, where ideas are still in development. In taking forward my recommendations, the Government should make full use of my study team’s detailed work and findings.

Recommendation 6

In taking forward detailed asset plans, and building on their work to date, departments must show how they will contribute to the Government’s objectives for asset management, including £30 billion of disposals by 2010. This work should be integrated with the delivery of the Government’s efficiency programme.

Action: Departments and the OGC Efficiency Team

1.38 Alongside a focus on disposals, there needs to be a clear drive for efficiency gains in the use of existing assets. The OGC is already encouraging more efficient use of workspace, including through coordinating requirements for office space, especially in London. Now is the time for these workstreams to be given new momentum as part of the efficiency programme.

1.39 As a result of my earlier relocation review, and of steps to reduce the size of London headquarters, new momentum has been added to an existing process of rationalising government estate in London. In the wake of the relocation review, the coordination role of OGC is being strengthened and Treasury approval must be sought for new space commitments in London above a certain size. It is too early to say whether these measures are sufficient but there are signs that the activity remains too piecemeal and unjoined-up, with a reluctance by some agencies and departments to make best use of space vacated by others. I would urge the Government to explore the merits of managing the London civil estate as a single portfolio.

1.40 A related point is that the utilisation rate of office space varies significantly from department to department. Organisations in the public and private sector have demonstrated that new models such as hot-desking and the introduction of innovative working practices can significantly reduce the need for office space and generate substantial savings. Such approaches also offer opportunities to improve customer interfaces, working conditions and environmental sustainability. There is clearly scope for a more concerted drive across the public sector to match these examples of best practice.

The Government's efficiency and relocation plans announced in 2004, taken as a whole, should secure savings of approximately £625 million a year by 2010-11 through a reduction in civil estate requirements.

Across the board efficiencies in space utilisation could give rise to over 250,000 square metres of space no longer being required potentially providing savings to the taxpayer of £135 million a year by 2010-11.

Source: Office of Government Commerce

1.41 However, this is not simply about reducing office space. There are potentially great efficiency gains to be had through the better use of all existing assets. Extending the use of schools for evening community use is one good example. Another example is the opportunity, highlighted by the Audit Commission, for the NHS to make more intensive use of existing operating theatres.

Recommendation 7

The efficient management of Government's retained assets should be made an explicit theme of the Efficiency Programme, with a clear focus on the scope for reducing office space requirements; the better coordination of space requirements in particular localities; and the more intensive sweating of assets.

I would welcome in particular an explicit London estate strategy, with specific, timed targets for the reduction in space requirements.

Action: Departments with the OGC Efficiency Team

1.42 A focus on land and buildings must not obscure the need for a more systematic approach to identifying and exploiting intangible assets.

1.43 The Government has encouraged departments and agencies to take a more entrepreneurial approach to identifying and exploiting intangible assets. For example, the Wider Markets initiative encourages departments, agencies and NDPBs to make better use of their assets (both physical and intangible) by engaging in commercial services based on them from which they can keep any income. The 1999 Baker Review highlighted the opportunity for government to make more of the intellectual property sitting in its public sector research establishments. At a more strategic level, the auction of licences for third generation mobile phone services in 2000 demonstrated the possibility of value creation in respect of a different kind of intangible asset.

1.44 But the clear message that I have picked up in this area is that overall progress has been patchy and that this policy may be ripe for being re-energised.

Recommendation 8

A much more robust approach is needed across the public sector to identifying, valuing and exploiting intangible assets. Current practice is unacceptably variable. Steps should be taken to re-energise activity within departments and their sponsored bodies to identify and exploit intangible assets.

Action: Departments guided by Treasury

Deploying asset management expertise more effectively

1.45 Giving new momentum to asset management in government requires not just a strengthened framework of incentives and a focus on delivery, but an assurance that departments have the capacity to deliver. This capacity will develop in the longer term as a result of the Government's focus on improving corporate governance and financial management in departments. In the short term, there is limited scope to increase skills in asset management across government, which puts a premium on deploying existing skill sets most efficiently.

1.46 In the public sector, as in the private sector, such expertise is finite. Departments with large asset bases, for example the MoD, have their own expertise. Others have helped pioneer new approaches, for example the PRIME contract negotiated by the former Department of Social Security, which transferred the ownership and management of almost all of its estate to a private sector consortium, Land Securities Trillium.

1.47 In this study, I have been made aware of the advice, expertise and models of practice that have been brought to bear by various pockets of excellence at the centre. These include Partnerships UK in relation to PFI and public private partnerships; OGC in relation to property management and procurement; English Partnerships in relation to site assembly and regeneration, the Shareholder Executive in relation to the management of government shareholdings; and the Valuation Office Agency, in relation to valuing assets. Asset management, if not a central responsibility of these agencies, touches on all their work. A body of knowledge on asset management has also emerged from the successive investigations of the National Audit Office, the Public Accounts Committee and the Audit Commission. I have also been made clearly aware of the expertise that lies with the property management and investment banking communities.

1.48 I believe there is a clear need to pull together existing skills within the public sector and to reinforce them with expertise from the private sector to address weaknesses in the capacity of Government to work creatively on optimising disposal values and engaging productively with the private sector. It is with this aim that my final recommendation calls for a short life public private task force.

1.49 I see particular opportunities arising from unmet need for property investment vehicles. A number of investment banks have pointed out a growing and unmet demand within the investment community for opportunities to invest in property. The judicious bundling of public sector assets may offer just such opportunities, as well as a means of creating greater public value. This kind of approach has been pursued in several countries including Germany, France and Italy, and also in Hong Kong. I believe the proposed task force should examine the possibilities.

Recommendation 9

The Government should establish a small, short-life task force, drawing on public and private sector expertise, to advise Treasury ministers, and to work with selected departments to clarify their contribution to the Government's objectives for asset management and disposal. As part of this work the task force should advise on further opportunities for private sector involvement in asset management, including the merits of developing new investment vehicles.

Action: The Treasury