Room for improvement

Strategic asset management in local government

National report June 2009
The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.
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The Audit Commission described good property management in 2000, but councils have made only modest progress

Council property is big business

Councils have used the proceeds of rationalisation to invest in recent years

Central government has neither set clear expectations nor offered incentives to use assets more frugally

Few councils are well placed to deal with tougher times

The recession offers opportunities as well as challenges
We described good property management in 2000, but councils have made only modest progress

- Well-planned use of property can help join up local services and improve public access.
- But capital is not free; councils that use assets efficiently can realise capital receipts and efficiency savings.
- Some councils are on top of their property portfolios, but only one in 14 councils is an exemplary manager of its assets.
- Nine out of ten councils believe that they have improved how they manage their assets, but auditors are more sceptical.
- In 2007/08, against a tighter standard, while 65 improved, the performance of 46 councils deteriorated.

Council property is big business

- England’s councils own property worth £250 billion, around two-thirds of which is accounted for by council housing and schools. This book value has nearly doubled in the last decade and its market value is probably higher.
- Councils made net capital investment in property of over £10 billion in 2007/08.
- In 2000, councils invested about £200 million in acquiring or refurbishing offices. This rose to nearly £800 million in 2007/08.
- A third of councils say that their property holdings have reduced in size, but have increased in either quality or value.
Councils have used the proceeds of rationalisation to invest in recent years
- Councils collectively across the UK realised an annual average of £4 billion from property sales between 2000/01 and 2007/08.
- A fifth of English councils spent less on capital investment in their own offices between 2000/01 and 2007/08 than they received in sales, generating £0.9 billion surplus.
- The other four-fifths of councils spent over £2 billion more on capital investment in offices than they realised in sales.
- If all councils had chosen and been able to prioritise disposal receipts over investment in the estate, they could have spent £3 billion less capital since 2000, and £150 million less revenue since 2003.
- A third of councils do not share offices or facilities with other local public bodies.

Central government has neither set clear expectations nor offered incentives to use assets more frugally
- Government aspirations have not encouraged councils to review their holdings of property.
- Councils have less incentive to put their property to best use than other parts of the public or the private sector.
- Central government missed chances to encourage asset rationalisation, such as when new unitary authorities were created.
- The extent or impact of transferring council property to local communities has yet to meet government aspirations.
Few councils are well placed to deal with tougher times

- Only half of councils are assessed by auditors as having sufficient information about their estate. Only one in five directors of finance says their council has all the information it needs to manage the estate properly.
- Property valuations in councils’ accounts cannot support strategic decisions, and few councils have anything better.
- Many councils lack the capacity to manage property well.
- Comprehensive Area Assessment (CAA) will set higher standards for strategic asset management.

The recession offers opportunities as well as challenges

- The recession will limit the scope for asset disposals; a quarter of councils expect receipts to fall by over 80 per cent.
- Funds for investment in property assets are likely to be scarce.
- But the recession is an opportunity for councils to prepare plans for using the property they own more efficiently and effectively.
- It may also present opportunities to acquire assets for the future.

The recession may present opportunities for councils to acquire assets for the future.
Recommendations

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What councils should do:

- improve their knowledge of their estates and their partners’ estates by:
  - collecting data on size, use, occupancy, condition, running costs and having an eye to the open market value (at realistic alternative uses);
  - ensuring that asset management plans include quantification of the potential costs and benefits of proposals;
  - sharing this information with other local bodies providing public services; and
  - publishing maps or details of the properties held by the public sector in local areas, and inviting proposals for alternative use of them.

- identify areas for improvement and other councils to learn from by:
  - collecting data to populate the corporate value-for-money indicators developed by the Audit Commission, National Audit Office, Wales Audit Office, Audit Scotland and the Northern Ireland Audit Office and participating in their benchmarking services; and
  - participating in other benchmarking networks, such as those offered by CIPFA Property.

- review property holdings and reduce them where possible by:
  - identifying and disposing of surplus or under-utilised property;
  - reconfiguring services and administration so that they occupy less space; and
  - considering tenure other than ownership – such as lease, rent or lease-back – where that gives demonstrably better value.

- motivate service managers who occupy property to use it economically, for example, by:
  - implementing capital charging arrangements that make them accountable for the cost of the capital they use; and
  - allowing them to keep a proportion of any sales proceeds.
Recommendations

- develop the capacity needed to bring about change by:
  - recruiting appropriately skilled staff on permanent or temporary contracts;
  - considering how to improve motivation for service managers who occupy property to use it economically;
  - commissioning reviews from property professionals in the private sector; and
  - making the best use of the support available from 4Ps and the Beacon councils as well as from the private sector.

- collaborate with local partners by:
  - raising the profile of property on the local strategic partnership (LSP) agenda;
  - sharing the existing estate with partners where beneficial; and
  - sharing property data among partners.

- seek opportunities presented by the recession such as:
  - acquiring property at reduced prices to satisfy future need; and
  - employing high calibre staff newly in the employment market.

What central government should do:

- clarify what it expects councils to do with their property during recession and public spending constraint, following the publication of the Carter report for the Operational Efficiency Programme [Ref. 28]; specifically how councils should balance the apparently conflicting priorities to:
  - maximise receipts from disposal of assets; or
  - enhance the estate to deliver better services.

- raise the profile of asset management, for example by:
  - making capital and revenue targets more specific; and
  - referring to asset management, for example, where local area agreements (LAAs) are reviewed or renegotiated.

- make councils accountable for the cost of the capital they have tied up in property, giving them incentives to make better use of the money.
review the rules governing what can be capitalised and how capital receipts can be used, to allow councils more flexibility. This would still be in line with the overall government objective of using capital receipts for investment purposes, and could, for example, enable councils to:

- fund option appraisals to assess the potential for rationalisation, asset sharing or spend-to-save projects; and
- support the revenue costs of capital projects designed to improve public services or support regeneration or economic development.

**What the Audit Commission will do:**

- publish detailed case studies of excellent asset management;
- support councillors in scrutinising how councils are managing assets;
- assess councils’ stewardship of property through Use of Resources assessments;
- continue to develop benchmarking services with other audit agencies; and
- publish guidance and good practice examples on the Improvement Network website.
Introduction

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At 31 March 2008, English councils owned property valued in their accounts at £250 billion. The market value of those assets is probably higher, even though that value has probably declined in the recession. This report is about how councils manage that estate. The aim is to help councillors, chief executives, directors of resources, and finance and property managers understand how a more strategic approach to asset management could secure better value for taxpayers’ money. Strategic in this context means being based on a plan or thought-through analysis of the whole of a council’s obligations, ambitions and budget.

Terms routinely used to describe councils’ land and property assets and their management include ‘asset management’, ‘the local government estate’ and ‘estate management’. These terms are used in this report only in relation to land and property or buildings. The report does not address fixed infrastructure assets such as roads and highways or public parks, or movable assets such as computer equipment, fleet vehicles or stock.

This is our third national report on the subject. Local Authority Property: A Management Overview was published in 1988 (Ref. 1). The second, Hot Property: Getting the Best from Local Authority Assets (Ref. 2) was published in 2000. It set out why a comprehensive or strategic approach was needed to avoid wasting money or providing the public with sub-standard services, and encouraged councils to share property with other public bodies to get better value for money. The Commission published similar reports on asset management by the police (Ref. 3) and in education (Ref. 4).

This work was well received by central government, which issued guidance reflecting the conclusions it reached. Expectations about how property is managed are higher than ever: councils should make savings and deliver improved services by changing how they use property, and when and how they invest in it.

This report is not primarily concerned with housing or education assets. Council housing is an unusual property asset. Its very existence fulfils a policy objective, but so does its sale or its use as part of a regeneration project, for example. Likewise, schools are assets integral to the delivery of a service, and the school estate has been the subject of considerable recent investment. This report does not cover the issues specific to housing or schools capital.
5 The current recession represents a challenge for councils’ asset management. They will be unable to secure significant receipts from asset disposals in depressed property markets, and may find it harder to secure resources to invest in new or refurbished property. At the same time, demands on services are rising. This will put pressure on asset management capabilities. But the recession may also offer councils opportunities to improve those arrangements by taking stock of what they hold, assessing their needs and better integrating property and operational strategies. There may also be opportunities for councils to use assets as part of their economic development or regeneration efforts. They could secure property at a relatively low price, or improve their capabilities from a richer supply of property professionals in the labour market.

Structure of this report

6 We examine progress since Hot Property and how councils have balanced national and local priorities.
- Chapter 2 looks at the different expectations of the local government estate.
- Chapter 3 describes what has happened to the local government estate since 2000 and asks whether property is now managed strategically.
- Chapter 4 examines barriers and challenges to better strategic property management.
- Chapter 5 outlines a way forward for councils to develop a strategic approach.

Following this report we will also publish:
- case studies of good practice in asset management; and
- a briefing for elected members.
Research for this report

7 The study rests on qualitative and quantitative research. A full description of the methodology can be found in Appendix 1. We conducted:

- detailed case study fieldwork at 22 councils;
- a representative survey of 80 council directors of finance, or their nominated representative, carried out by Ipsos MORI;
- an analysis of Use of Resources scores for asset management from 2005 to 2008, provided by district auditors;
- a review of a sample of 20 per cent of councils' property asset management plans; and
- a review of all their 2007/08 annual efficiency statements, as well as bids by councils to acquire unitary status.
# Expectations of the local government estate

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8 Central government has set out what it expects of the local government estate in a series of reports. They reflect two different and sometimes conflicting views of the estate. On one hand, assets need to be seen as a resource that consumes scarce capital, so they should be used as efficiently as possible, and surplus assets disposed of to yield receipts and reduce running costs. On the other, property assets have the potential to enable councils to pursue their wider objectives, including stimulating regeneration, reducing environmental impact or encouraging community activity. Sometimes these objectives are well aligned (as when councils share premises with other public bodies) but they can, and have, come into conflict.

9 In 2008 the Department for Communities and Local Government (CLG) published a framework for council members and senior officials that aimed to raise the profile of asset management (Ref. 5). It said that councils had greatly improved their management of assets, but that most had started from a low base and that the challenge was for all authorities to reach the level of the best. The framework followed a six-year study commissioned by CLG (Ref. 6). This work concluded that most councils had made progress with corporate capital and asset planning processes, but that there was a long way to go before it could be said that most councils were making the most effective and efficient use of capital resources and property assets.

Creating a more efficient estate

10 National reports that have highlighted the potential efficiency gains in the public sector estate include the following:

- Sir Michael Lyons’ 2004 report *Better Management of Public Sector Assets* (Ref. 7), which examined how both Whitehall and local public bodies could improve property management, targeting £30 billion in asset sales and efficiency savings.

- The Office of Government Commerce (OGC) 2006 *Routemap to Asset Management Excellence* (Ref. 8), which committed government departments to excellence in asset management over four years.

- Sir David Varney’s 2006 report to HM Treasury, *Service Transformation: A Better Service for Citizens and Businesses, a Better Deal for the Taxpayer* (Ref. 9), which argued that transforming public services depended on better use of property. The report promoted cross-department property management; better data and benchmarking on use, cost and outputs; and sharing between the separate central and local government estates.
All of these reports asserted that public property could be more efficiently managed and capital released if surpluses were eliminated. Consultants working on behalf of CLG found that councils themselves thought there was ‘scope for producing efficiencies through reducing the costs tied to property, such as office space and buildings’ (Ref. 10).

The government has embodied the principle that there are savings to be made from the local and central government estate in its spending plans. The 2006 Pre Budget Report proposed that government departments should:

- improve use of assets;
- base future investment on fuller assessment of the condition and performance of property holdings;
- take a zero-based approach to capital budgeting, separating resource and capital budgets; and
- dispose of assets no longer required for public service delivery (Ref. 11).

Extending the aspirations of the 2004 Spending Review (SR04), the 2007 Comprehensive Spending Review (CSR07) set all public services a target of achieving at least 3 per cent net cash-releasing value for money gains each year from 2008/09 to 2010/11. This equates to some £4.9 billion over the three-year period. Better asset management is expected to contribute £100 million each year to this total. In addition, councils across the United Kingdom are expected to dispose of £4 billion worth of surplus assets per year.

Table 1 Government expects both capital receipts and revenue savings from better asset management

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Source: CLG
14 In its response to the 2007 spending review *Delivering Value for Money in Local Government: Meeting the Challenge of CSR07* (Ref. 12), CLG concurred with a ‘strong consensus’ that the number of offices used by councils could be greatly reduced if offices were shared and services offered by different public bodies were co-located.

15 The firm commitment to savings from the public sector estate was further evidenced in the 2009 Budget, which targeted £16 billion in receipts from property and other asset sales over the three years from 2011/12 (when market conditions may have improved) with the proceeds used to supplement capital budgets. This was reiterated in the Property strand of the Treasury’s Operational Efficiency Programme (Ref. 13), which identified potential efficiencies over the next ten years of £20 billion in receipts from disposals (excluding council housing) and £5 billion a year in running costs across the whole public sector estate, of which the local government estate accounts for over two-thirds. Its report suggested that departments may need initially to prioritise significant up-front investment in order to achieve these efficiencies.

16 These reviews and plans all show the government’s desire to rationalise council property and save money. But that is not the only aspiration for the local government property estate.

**Other demands on the local government estate**

17 The Lyons and Varney reports also informed the 2006 local government White Paper *Strong and Prosperous Communities* (Ref. 14). This set out a new relationship between councils and local and community groups in their areas. Its theme was devolving power and it highlighted land and property. It encouraged councils to recognise the potential for assets to be used in pursuit of local objectives including economic regeneration and neighbourhood renewal (some examples are in Chapter 5 of this report), or to improve services, for example by joining up related services or improving access to them. The White Paper said that councils and other bodies should plan property jointly. Pooling resources would maximise value for money and help make services more user friendly.
Ten benefits of good asset management were summarised by CLG in *Building on Strong Foundations* (Ref. 5). The report stated that effective asset management can:

- deliver exceptional services for citizens, aligned with locally agreed priorities, while focusing investment clearly on need;
- empower communities and stimulate debate;
- improve the economic well-being of an area;
- ensure that, once built, assets are correctly maintained;
- introduce new working practices and trigger cultural organisational changes;
- reduce carbon emissions and improve environmental sustainability;
- increase co-location, partnership working and sharing of knowledge;
- improve the accessibility of services and ensure compliance with the Disability Discrimination Act 2005;
- generate efficiency gains, capital receipts or an income stream; and
- improve the quality of the public realm.

Effective asset management can reduce carbon emissions and improve environmental sustainability through measures such as fitting solar panels.
The 2007 Review of Community Ownership and Management of Public Assets (Ref. 15), led by Barry Quirk, Chief Executive of the London Borough of Lewisham, concluded that even if it cost money and sacrificed potential savings, councils should think of transferring property to community groups because the benefits could outweigh the risks and opportunity costs in appropriate circumstances. In 2008, the government published guidance on managing the risks associated with transferring assets (Ref. 16) and reaffirmed Quirk’s conclusions in the White Paper Communities in Control: Real People, Real Power (Ref. 17), which established an independent Asset Transfer Unit to promote asset transfer and provide information, advice and support to those involved. CLG has continued to promote good asset management more broadly, commissioning the Royal Institution of Chartered Surveyors (RICS) to develop best practice guidance that was published in 2008 (Ref. 18). Further guidance from CLG and RICS (as a leaflet series) is in publication and will be issued in 2009.

Property also affects the staff who deliver council services. Councils told us that much of their property is old and in poor condition, needing investment to bring it up to date. A survey of 86 councils by the consultants DTZ in September 2008 (Ref. 19) found that ‘over 40 per cent of councils rated their portfolios in poor or very poor condition’ (CLG estimated this figure as 19 per cent (Ref. 6), but the consensus in this sector is that there is much sub-standard property). In Scotland, 27 per cent of councils report their buildings are in a poor or bad condition (Ref. 20). Half of the directors of finance or resources who responded to our survey said they wanted to rationalise because it would improve morale and productivity. Several of the councils we visited said they had bought and sold property to improve staff working conditions and reduce turnover. One London borough’s executive director of resources told us:

‘Some of our buildings were falling down. We couldn’t carry on in that way. Our staff weren’t just telling us that they didn’t like the assets, they were leaving.’

Executive director of resources, London borough
Expectations of the local government estate

21 As a minimum, councils have to follow the Disability Discrimination Act 2005 on greater access, and regulate newly built property to comply with targets set out in the Climate Change Act 2008. Further environmental targets are set in the LAA national indicators 185 and 194.ii

22 So councils have to balance competing objectives. As part of Comprehensive Performance Assessment (CPA), the Audit Commission's Use of Resources key line of enquiry (KLOE) that assessed asset management (KLOE 2.3) reflected these multiple objectives. The KLOE is reproduced in Appendix 2 along with the revised KLOE for the new Comprehensive Area Assessment (CAA).

Councils have been given greater autonomy

23 Alongside these multiple expectations, central government has given councils greater financial freedom. In 2002/03, the government provided councils with an allocation of capital called the Single Capital Pot, to be spent in line with agreed strategies and asset management plans. These had been introduced following a recommendation in Hot Property (Ref. 2). Once the plans were rated ‘good’, councils were no longer obliged to submit them to government regional offices. By 2004, most had achieved this rating.

24 We recommended in Hot Property (Ref. 2) that the government ‘accelerate research on alternatives to the existing system of capital controls’. In 2004, The Chartered Institute of Public Finance and Accountancy (CIPFA) published The Prudential Code for Capital Finance in Local Authorities (Ref. 21). It introduced three changes:

- requiring councils to integrate capital and revenue planning, as part of the annual budgeting cycle, and three-year medium-term financial strategy;
- letting councils borrow to invest where that borrowing is affordable, prudent and sustainable (known as prudential borrowing); and
- providing incentives to dispose of surplus assets by freeing councils to spend or save the proceeds.

CO₂ reductions from local authority operations.

Level of air quality.
25 Councils can use non-housing capital receipts to fund capital expenditure, to repay debts or for investment, but they cannot use them to supplement revenue expenditure. As a result, unlike the private sector or the NHS, the only direct connection between the proceeds of councils’ property disposals and their revenue account is the reduction in interest payments.

26 This chapter has described the various expectations of councils’ asset management. Chapter 3 draws on published and survey data, and auditors’ judgements, to describe the choices councils have made to shape the estate, and their progress towards strategic asset management.

i Housing capital receipts are subject to different arrangements that involved pooling across councils to ensure effective distribution. This system is currently under review.
# The changing local government estate

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Size and value

27 In 2000, we reported in Hot Property (Ref. 2) that councils held property assets valued at £140 billion. By 2008, this figure had risen to £250 billion. The market value of some of these assets will be higher than these accounting values, though it has probably declined in recent months in line with property markets more generally.

Figure 1 The value of the estate nearly doubled between 1999 and 2008
Local government assets

Source: CLG, Capital Outturn Returns

28 It is impossible to estimate the contribution of price inflation to the value of some classes of asset (highways assets for example), but a crude application of property price indices to these values suggests that much, but not all, of the increase is attributable to property price inflation. This will have changed over recent months in line with wider falls in property prices due to the recession.
Although no national data on the physical size of the local government estate exist, four in ten councils (43 per cent) in our survey say their estate has decreased in size. Six in ten councils, including over half of those whose estate has decreased in size, say that it has increased in value. In any event, considerable investment has been made across all services, especially education and housing.

Government initiatives have influenced the councils’ property holdings. The Building Schools for the Future programme accounts for the increase in education expenditure. Investment in transport infrastructure has also been a policy priority. While the absolute value of housing assets has increased, the proportion of asset value accounted for by housing assets has decreased because of transfers out of council ownership through Right-to-Buy and transfers to housing associations.

Source: CIPFA Capital Expenditure and Treasury Management statistics
The changing local government estate

31 Hot Property (Ref. 2) recommended that councils ‘dispose of assets that do not support core service objectives or fail to make an adequate return on investment’. Councils across the United Kingdom have done this, exceeding the £4 billion target for fixed asset sales set by central government in SR04. In the earlier years the target did not stretch councils, but recently it has been harder to reach. Housing asset disposals have accounted for over half of those sales. In 2007/08, the £4 billion target was achieved largely with the help of big, one-off sales such as holdings in Leeds-Bradford Airport and Kingston Communications.

32 Sales did not necessarily lead to net reductions in holdings or to savings. Councils reinvested sale proceeds, replaced property and took advantage of their new financial freedoms. In 2007/08, councils borrowed £3 billion under the prudential borrowing arrangements, an amount which has increased each year since the arrangements were introduced. Figure 3 shows that most of the increase in support for capital investment came from government grant or prudential borrowing.
The changing local government estate

Figure 3 Funding streams include capital receipts and prudential borrowing
Funding of capital expenditure

Source: CLG, Capital Outturn Returns

The office portfolio

Decisions on the level of investment in, for example, housing and education reflect national and local policy priorities. Expenditure on the office portfolio is different. Councils reasonably want the offices that members of the public visit and council staff work in to meet modern standards, but beyond that it is reasonable to expect councils to minimise the costs to the public purse of their office accommodation. The remainder of this section is concerned only with office property.
Every year since 2000, the proceeds of office property asset sales, and more, have been reinvested in council property. The gap between sales proceeds and expenditure has grown markedly since 2003/04. In 2007/08, councils sold office property worth £325 million, which helped them reach that year’s £4 billion government disposals aspiration. But collectively, they ploughed all of these receipts back into acquiring or refurbishing office accommodation. They spent around £150 million on replacement buildings, and over £600 million on refurbishment, renovation and new-builds.
Figure 4 Councils spend more on offices than they raise from sales
Capital receipts and spending on council offices (all councils)

Source: CLG, Capital Outturn Returns
Base: all English councils (388)
Councils were driven to spend by the wish to make poor property holdings fitter for purpose. Older estates often comprise properties spread over a wide area, with buildings unsuitable for modern office practices, such as hot desking, and the technology to support them. Councils cannot bring staff together to work in new, more productive ways. Concentrating on a single site can realise these gains, but at a cost.

Councils justify such programmes as ‘spend-to-save’. A capital outlay can be recouped over years to come thanks to lower revenue costs. Savings might come from lower energy bills because new buildings are better insulated. Staff costs can be cut if people don’t have to travel between sites and, if their sense of well-being improves, they may take less sick leave.

Non-financial benefits like staff morale and citizens’ views of council services can be as important for councils as savings. We found that, even for those councils that manage their property well, balance sheet savings were seldom the main objective of office rationalisation. Following a reconfiguration of the office estate of one county council, an evaluation by property advisors concluded:

‘We found little appreciable difference between the cost of new accommodation and staying put. However, the rationalisation looked feasible and had the potential to fulfil the Council’s non-financial requirements.’

Professional advisors to a county council

Some councils have released value from their office estates. Between 2000/01 and 2007/08, 80 councils realised more from sales than they spent on buying new property or refurbishment. Of these, 20 made a net surplus in at least six of those eight years; three of them made a net surplus in every year. These councils had net receipts of around £900 million. England’s other 308 councils spent around £2 billion more than they received in the same period.
Figure 5 A minority of councils released net value from office properties
Capital receipts and spending on council offices – councils whose receipts exceeded expenditure

Source: CLG, Capital Outturn Returns
Base: 80 Councils that obtained more in receipts than they spent on property in this period
Our survey also asked councils what capital savings they had made over the past five years from their operational estate (excluding education and housing). These results need to be treated with caution because only 21 councils were able to give us figures and we have no means of knowing whether they are representative. But, if all councils had been able to make the capital efficiencies made by our sample, overall they would have spent around £3 billion less capital since 2000.

Over three-quarters of the councils in our survey say they made savings by managing property more efficiently during the previous five years. But only four in ten can provide figures for revenue and only one in four for capital savings.

Six out of ten councils in our survey have a plan for rationalising their office space. District councils are more likely than others to lack one, citing too few offices as justification.

Even among councils with a plan, only four in ten have targets for savings in capital and revenue spending and they tend to be councils with budgets over £50 million. In total, only a quarter of councils have numerical targets for savings. The small proportion of councils either with targets or able to identify actual savings is surprising, given the consistently expressed importance of making savings from asset disposal and the potential scale of the sums involved.

This category is larger than the office estate, and includes other operational assets like leisure centres and libraries. While not directly comparable with the analysis of office accommodation, it gives us an additional basis for assessing the extent of possible efficiencies from better management of council assets.

Respondents were asked to collect numerical data relating to the management of their authority’s assets prior to telephone interviews being conducted. A data collection form specifying the information required was distributed to potential respondents as an attachment to the pre-survey email.
The changing local government estate

43 The 31 councils (of 80 we surveyed) that could provide figures for revenue savings over the past five years from better management of their operational estate (other than housing and education) said that they had saved a total of £12 million between them. Again, we cannot be sure how representative this sample is, but if all councils had made revenue savings of this order, the savings would have totalled nearly £150 million over five years, or £30 million a year. The small numbers of councils able to provide reliable data on these savings and the modest sums claimed by these councils themselves reinforce our view that the substantial capital spend of recent years has yet to deliver significant ongoing revenue savings.

Progress towards strategic asset management

44 *Hot Property* (Ref. 2) called for more awareness of property as a strategic resource. It said councils should clarify which senior manager was responsible for asset management and it recommended that councillors and managers should keep asking whether assets needed to be retained.

45 Nine out of ten directors of finance say that their council manages assets strategically and a quarter say their council is now ‘very effective’ at asset management. This runs contrary to evidence from a six-year evaluation of corporate capital and asset planning in local authorities carried out by CLG (Ref. 6) which noted that the range of performance by councils is likely to be a normal distribution in which ‘most authorities are somewhere in the middle, having addressed a number of important issues, but not yet being in a position to generate outcomes to a significant degree’.

46 The judgements that auditors reach for the Use of Resources assessment for asset management also contrast with councils' self-assessments. While the number of councils failing to reach the minimum standard (level 2) in key line of enquiry 2.3 (asset management) has now dropped to below 10 per cent, only 7 per cent achieve level 4, which equates to a strategic approach. Auditors’ assessments for this KLOE are among the lowest of any of the aspects of financial management KLOE they assess.
Rate of improvement

Nine out of ten directors of finance also say that their council’s asset management has improved in recent years. Auditors agree that councils have made structural improvements, but more slowly than councils think. Over the four years since 2005 in which Use of Resources assessments have been made, four in ten councils improved their scores for asset management, but the scores of nearly half remained static. One in seven had worse scores in 2008 than in 2005. Between 2006/07 and 2007/08, while 65 councils improved their score, 46 scores got worse.

Figure 6 Councils have made slow, but steady progress in asset management

Use of Resources score, KLOE 2.3 (asset management)

Source: Audit Commission
Base: all English councils (388)
The changing local government estate

48 The auditors’ judgements within Use of Resources are based upon assessments using detailed KLOE (see Appendix 2a). This is a very important body of evidence that enables us to make comparisons across the whole of local government for the four years between 2005 and 2008. The assessment criteria within the KLOE have got harder over this period. Despite this, there has been steady improvement in councils’ performance, but at a slower rate than in most other aspects of their financial management.

49 Most councils are starting to recognise which processes and structures should be in place for them to have a fully integrated strategic approach to asset management. However, very few councils have been able to achieve clearly evidenced outcomes that flow from these structural changes. This was also reported in research for CLG (Ref. 6), which found that while the government’s initiative to encourage a more corporate and strategic approach to capital and asset management planning had been successful, ‘by successful, [CLG] do not mean that most local authorities are now making the most effective and efficient use of capital resources and property assets. There is a long way to go before it is likely that this could be said to be the case with any degree of confidence.’

Collaboration

50 Managing assets strategically implies sharing information with other public bodies that deliver services in the area. Property should be jointly planned, leading, where beneficial, to shared accommodation. The auditors’ level 4 rating in KLOE 2.3 (2008) describes integrating ‘the management of its asset base with others, for example, third sector and local public agencies, to identify opportunities for shared use of property and to deliver seamless cross-sector, cross-agency and community-based services to users’.

51 Just over two-thirds (68 per cent) of councils in our survey say that they regularly consider both sharing property with other public bodies and whether they should transfer property to community groups.
52 *Hot Property* (Ref. 2) said councils should ‘pursue opportunities to share property with other local agencies, balancing cost, quality and user demands’. Since then, the emphasis on partnership working has grown, in the context of LSPs and LAAs. The government has promoted the shared use of property to promote efficiencies and improve services. The Operational Efficiency Programme recommends that LSPs should be encouraged to play a role in the development of asset management strategies across different local or regional providers, leading to the publication of local area strategies for the public estate.

53 Seven out of ten councils report that they share assets with other public bodies. Primary care trusts are most likely to be their partners, ahead of other councils or other public bodies.

**Figure 7 Councils say that they share assets with a range of public bodies**

Which, if any, of the following does your authority share assets with?

<table>
<thead>
<tr>
<th>Public Body</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>PCT</td>
<td>60%</td>
</tr>
<tr>
<td>Other Local Authorities</td>
<td>50%</td>
</tr>
<tr>
<td>Police</td>
<td>40%</td>
</tr>
<tr>
<td>Central Government Departments</td>
<td>20%</td>
</tr>
<tr>
<td>Colleges and Universities</td>
<td>10%</td>
</tr>
<tr>
<td>Other</td>
<td>5%</td>
</tr>
<tr>
<td>Fire Service</td>
<td>5%</td>
</tr>
<tr>
<td>None of these</td>
<td>0%</td>
</tr>
</tbody>
</table>

*Source: Ipsos MORI telephone survey of 80 councils*

Base: all those who share with other public sector bodies (57 councils)
A strategic approach implies more co-location. Reviewing property holdings across an entire area ought to lead to more efficient use and opportunities to dispose of surplus assets. Capital receipts can be generated and revenue costs reduced or eliminated.

There are many examples of co-located services including, but not exclusively within, the LIFT programme. Examples from our fieldwork included a unitary authority sharing office space with HM Revenue and Customs; a London borough entering into partnership with a university; several county councils sharing back office functions, in particular registrar’s offices, with local district councils; and a district council sharing town centre office space with the police.

Only 13 of the councils in our survey (of 80 councils) could quantify the savings arising from sharing. The largest figure reported was just under £500,000 in a county council. The remaining councils providing data were districts with smaller budgets overall. The best of them had saved over £250,000, at least 1 per cent of its total revenue budget, through sharing property with partners, thus making a substantial contribution to its efficiency targets.

But despite these innovative examples, few councils can demonstrate that they emerge from a joint comprehensive plan for public assets. Councils we visited did not share assets on a strategic, area-based approach. Respondents to our survey confirm that pattern, with more saying that sharing arrangements are usually or always ad hoc (42 per cent) than usually or always strategic (28 per cent).

The Local Improvement Finance Trust (LIFT) programme is a capital investment procurement initiative led by the Department of Health. Similar to the public finance initiative, a LIFT scheme is essentially a public private partnership that is established, usually between a primary care trust and local authority, to provide health and social care facilities through a jointly owned company called a LIFTCo.
The development of LSPs might be expected to encourage further sharing by bringing local public bodies together. But only half of the respondents to our survey say that their LSP promotes property sharing, and only 3 per cent that they do so to a great extent. Planning the public estate is not high on the agenda for many of them; 44 per cent say their LSP is either not very or not at all involved in property matters. But councils believe that they will be more likely to share assets with partners in future; two-thirds (64 per cent) believe that the development of LSPs and LAAs will help to promote asset sharing.

**Figure 8 Councils say that LSPs could be more effective in promoting asset sharing**

To what extent is your LSP actively engaged in promoting the sharing of property between public service partners?

<table>
<thead>
<tr>
<th>Extent</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>A great extent</td>
<td>8%</td>
</tr>
<tr>
<td>A fair amount</td>
<td>13%</td>
</tr>
<tr>
<td>Not very much</td>
<td>31%</td>
</tr>
<tr>
<td>Not at all</td>
<td>3%</td>
</tr>
</tbody>
</table>

Would you say your authority is more or less likely to share assets with public service partners in the future as a result of the development of LAAs and LSPs, or has it made no difference?

<table>
<thead>
<tr>
<th>Likelihood</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>More likely</td>
<td>33%</td>
</tr>
<tr>
<td>Made no difference</td>
<td>45%</td>
</tr>
<tr>
<td>Less likely</td>
<td>64%</td>
</tr>
<tr>
<td>Don’t know</td>
<td>0%</td>
</tr>
</tbody>
</table>

Source: Ipsos MORI telephone survey of 80 councils
Base: 80 councils
The changing local government estate

Community asset transfer

The government has urged councils to consider transferring assets to community groups. The Quirk Review (Ref. 15) set out the benefits. We found some councils that are enthusiastic about community transfer and others that were more conscious of the risks and difficulties in this policy. Nearly a third of councils in our survey say that they had made no transfers during the past five years, while a similar proportion had transferred up to nine properties. Four of the councils surveyed had transferred ten or more properties to community groups.

When they transfer, councils use a range of vehicles including transferring freehold ownership. However, they prefer to retain ownership of property through leases and licences, because these enable them to retain control over the use of the assets and to bring them back if terms and conditions are not met.

‘There is a legal debate about whether you actually transfer the asset in total, or whether you just have its management and its operation transferred; ownership remains a matter of debate.’

Head of property services, Unitary Council

Figure 9 Councils are cautious in their choice of transfer vehicles
Which of the following approaches to community asset transfer does your authority use?

- Long lease (22 yrs or more)
- Short lease or tenancy
- Licence to occupy or tenancy at will
- Freehold
- None of these
- Other
- Don’t know

Source: Ipsos MORI telephone survey of 80 councils
Base: 80 councils
The Quirk Review

61 While our survey suggests that the Quirk Review has raised awareness and encouraged councils to consider community transfer, only one council surveyed said that it has led to a marked increase in transfers. The councils we visited similarly told us that their approach had not been greatly influenced, and neither had the volume of transfers requested or granted.

![Figure 10 Most councils think that the Quirk Review has had some impact](image)

What impact, if any, has the Quirk Review had on your authority’s approach to community transfer?

<table>
<thead>
<tr>
<th>Impact Description</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Negative impact – number of transfers has reduced</td>
<td></td>
</tr>
<tr>
<td>No impact – we were not doing it and still aren’t</td>
<td>10</td>
</tr>
<tr>
<td>No impact – we were already doing it</td>
<td>30</td>
</tr>
<tr>
<td>Some impact – it has raised awareness and we are considering more in future</td>
<td>40</td>
</tr>
<tr>
<td>Big impact – a marked increase in transfers</td>
<td>5</td>
</tr>
<tr>
<td>Haven’t heard of the Quirk Review</td>
<td>0</td>
</tr>
<tr>
<td>Don’t know</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: Ipsos MORI telephone survey of 80 councils
Base: 80 councils

62 The government has aimed to increase the impact of the Quirk Review by funding the establishment of the Asset Transfer Unit. This is a centre of expertise on asset transfer, providing information, advice and support to councils, other public bodies and community organisations. The Asset Transfer Unit will be seeking to increase the impact of the Quirk Review and to build capacity among the voluntary and community sectors, as well as in councils.
63 One council that is keen to transfer more properties explained why it felt it cannot do so:

‘We probably haven’t got many other properties which are transferable, (a) because the organisations don’t exist to support them and (b) we don’t have the properties that probably would be transferable.’

Asset management officer, county council

64 This chapter has described the changes to the local government estate since Hot Property (Ref. 2). It shows that councils have made choices. In a financial environment in which government capital programme and prudential borrowing have been available, most have chosen to invest in the estate. They have pursued a variety of strategies, from reconfiguring service provision to improving the working environment for staff and visitors, or compensating for historic underinvestment that has left the estate in poor condition. Few councils could quantify non-financial benefits from such activity; fewer than half could quantify either capital or revenue savings from improved property management. Some (one in five) have prioritised disposal receipts and achieved a net financial surplus. That opportunity is unlikely to be available in current market and economic circumstances.
Evidence from auditors’ assessments suggests that progress towards strategic asset management has been slow and more limited than many councils think. Few are yet adopting a strategic approach to asset management in their local partnerships as yet, although there are signs of clear progress in some areas. And while there has been some consideration of community asset transfer in the light of the Quirk Review, it appears unlikely to lead to radical reconfiguration of the estate. Chapter 4 explores the barriers to a strategic approach and explains why so few councils are assessed as strategic by auditors.
Chapter 4

Barriers and challenges

<table>
<thead>
<tr>
<th>Internal barriers</th>
<th>46</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government policies</td>
<td>55</td>
</tr>
<tr>
<td>The recession</td>
<td>58</td>
</tr>
</tbody>
</table>
Lack of progress on strategic asset management is partly due to the choices councils have made. But government policies and incentives have not always helped councils to determine their priorities for the estate, whether achieving savings from disposals or investing to meet wider policy objectives. This chapter explores the barriers to strategic asset management in greater detail and describes the additional challenge councils face as a result of the economic downturn.

Internal barriers

Councils’ assessments of their progress are at odds with those made by auditors. Those councils that over-estimate their performance may not be motivated to improve.

Only a very small minority of councils are rated by auditors as strategic in their approach to asset management. The Commission believes that this is because the majority have not made enough progress on:
- data and benchmarking, which underpin management decisions;
- collaboration, which enables both the joining up of services and rationalisation; and
- asset management plans.

Data and benchmarking

Many councils don’t know enough about their assets to support a strategic approach. Auditors’ Use of Resources scores for 2008 show that nearly half of councils do not ‘maintain a record of land and buildings that contains accurate data on efficiency, effectiveness, asset value and running costs which can be used to support decision making on investment and disinvestment of property’. Eleven councils even fail to maintain a register of the property they own that meets the minimum requirements set out in the key line of enquiry.

An asset register is not the only information that councils need to manage their estates effectively. Directors of finance accept the need for information but, in contrast to auditors’ assessments, they tend to think that they have enough. Four fifths of them say they have some or most of what they need. Only a fifth are confident that they have all the information they need.

See KLOE 2.3 level 3 for 2008 Use of Resources in Appendix 2.

See KLOE 2.3 level 1. In all cases the auditor reported this deficiency to the council in question.
Even some of the stronger councils that we visited lack comprehensive data on the size of their holdings; the numbers of staff occupying buildings; what they are worth; and the physical condition that they are in. The Commission believes that accessible and interlinked data systems for assets are needed to enable councils to manage them successfully. But 33 per cent of respondents to our survey could not satisfy this criterion.

Many councils don’t know enough about their assets to support a strategic approach.
Weaker councils tend to have inadequate and incomplete data which only just meets the minimum required for their register of fixed assets. Some have started to bring in new information systems, but they may still lack data.

Case study 2
A district council with a level 2 Use of Resources score has adopted a property software system used by a number of councils. But some fields are blank because the council’s data sets are incomplete. The council says it has to strike a balance between quantity and quality as it is only a small authority. The council’s asset register is on a separate system and is not automatically reconciled to the other systems. The council lacks survey data on how suitable its offices are and information on occupancy.

Benchmarking depends upon a critical mass of participants contributing comprehensive, reliable data, but in our survey 33 per cent say that they did not compare their performance with others.

Figure 12 Councils say that lack of consistent and comparable data is the main barrier to benchmarking
What would you say are the main barriers to benchmarking property and asset data?

Lack of capacity (Time/money/resources) 20%
Lack of confidence in own or others’ data 20%
Lack of consistent comparable data 40%
Other reasons 10%

Source: Ipsos MORI telephone survey of 80 councils
Base: 80 councils
The third of councils that don’t benchmark include the strong as well as the weak. Of the councils we visited, under-performing councils say they lack sufficient data to participate, while stronger councils are suspicious about the quality and comprehensiveness of the data submitted by other councils, preferring to evaluate their performance through internal comparisons and trends over time.

The accounts
Central and local government alike are unable to grasp what is happening to the local estate overall because the data available to them are generally not fit for purpose. As a result, policies may be based on misleading or out-of-date information.

The only comprehensive national data set relating to councils’ property assets is based on the values of those assets reported on councils’ balance sheets. Designed to achieve transparency in financial reporting, they have weaknesses as management information because:

- accounting principles generally require assets to be valued as if they will continue to be used in the same way. These values will sometimes be less than market value. Further, they do not account for the opportunity cost of the value tied up in the asset;
- assets are valued at different times, usually over a five-year cycle. Councils legitimately adopt different approaches – some value the whole estate at five-year intervals; others a proportion of the estate each year; and
- price inflation and changing property market values obscure movements in the physical size of the estate.

So, while the valuations published in annual accounts present an accurate snapshot of the value of the estate for financial reporting purposes, they are not suitable for comparing assets across councils or for monitoring the value of individual assets in the five years between valuations. More importantly, they do not reflect open market value which is likely to be the most useful value for managerial decision making.
Moreover, while these book values provide a basis for assessing the total costs of council services, they are not a good basis for thinking strategically about the asset themselves. In the Know (Ref. 22), our report on making good use of information, shows that information supporting a decision needs to be relevant, of appropriate quality and well presented. For the purposes of making strategic asset management decisions, book values do not meet the standard of relevance or quality. Councils we visited understood that the accounts serve a different purpose, but only the strongest councils were collecting more sophisticated information.

Collaboration

Poor data will also hamper efforts to collaborate. Examples from our fieldwork showed that councils that did not know about their partners’ estates were less likely to share with them.

“We're not sure what system the county uses. We don't know exactly which buildings they occupy.”

Asset manager, district council

Councils may find it hard to collaborate for many different reasons – no single barrier stands out. Unprompted, our survey respondents cite a lack of willingness to compromise as the biggest barrier (mentioned by 27 per cent). Around a quarter cite different political agendas and funding regimes as a common barrier (24 per cent) and the same percentage feel that poor existing working relationships and cultural barriers between organisations prevent them sharing property with public sector partners.
Figure 13 Barriers to sharing assets
What would you say are the main barriers to public sector partners sharing assets?

- Loss of identity/control/ownership
- Lack of suitable assets to share
- Lack of capacity (Time/money/resources)
- Poor working relationships/cultural barriers
- Different political agendas/funding regimes
- Willingness to compromise
- Other reasons

Source: Ipsos MORI telephone survey of 80 councils
Base: 80 councils

81 A strategic approach to collaboration would give the transfer of assets to community groups wide and considered attention, as part of a broad review of asset use. Our fieldwork and survey research confirms that councils are worried about the risks involved. This may prevent them transferring buildings, even if doing so would fit with their vision for community development or empowerment.

82 Our research confirms that councils appreciate the risks identified by CLG in 2008 (Ref. 16). Councils doubt whether voluntary and community groups can manage property well enough; in particular, the survey suggests they are concerned about a lack of capacity and stability in the sector.
These concerns help to explain why councils want to retain the control of transferred property through leases and licences rather than transfer of freehold ownership. It may be necessary for councils to help to develop the capacity of the voluntary and community sector in order to transfer more properties:

‘It’s the support that needs to be put in place to get them going as organisations – that is the difficulty, I think.’

Asset management officer, county council

One in six councils cites the loss of capital receipts as the reason for a lack of enthusiasm. Councils resist transfer at less than market value in order to maximise proceeds from asset sales.

‘[Name of site] is a bunch of garages and a former community centre. It is very difficult for members to see any other option other than a disposal and a receipt of £750,000. I think the Quirk Review does ask important questions about what councils are intending to do with assets and how they might best use them for community benefit, but I think its use will be limited.’

Director for resources, London borough
Capacity

85 Despite believing that their councils are adequate managers of land and property, respondents to our survey identify lack of resources and expertise (25 per cent) and finance (20 per cent) as the main barriers that prevent councils from adopting a strategic approach. One in seven (15 per cent) reports a lack of time, capacity or resources inhibiting them from sharing assets with partners. This is also cited as the reason why councils don’t collect good information and is true across all council types. Two-thirds (66 per cent) of the councils that do not have all the data they need for strategic asset management attribute this to lack of capacity.

Figure 15 Councils say that a lack of finance and resources stops them from managing strategically

What would you say are the most important barriers preventing authorities adopting a strategic approach to asset management

Source: Ipsos MORI telephone survey of 80 councils
Base: 80 councils

86 Councils told us that, historically, many had struggled to recruit and retain enough high quality property professionals, but it is possible that the recession has started to alleviate this.
Asset management plans
87 Asset management plans were made compulsory in 2000, although they existed in education before then. They were meant to clarify councils' thoughts about how they used their property and how financing their holdings affected their investment plans. The requirement to submit them to regional government offices was stopped in 2003 for councils rated as 'good', and most had achieved this by 2004.

88 Most councils value them. Over half say the plans are vital if they are to develop their approach. Only one council in 50 says that it has not updated its plan in the last three years.

Figure 16 Most councils value asset management plans
How important do you think the requirement to produce asset management plans and capital strategies has been in helping to develop your authority's approach to asset management?

Source: Ipsos MORI telephone survey of 80 councils
Base: 80 councils
89 Even so, auditors’ Use of Resources assessments often find asset management plans to be weak. The existence of a plan itself is no more than a necessary first step, but a good plan enables strategic choices about property and shows how they can be implemented.

90 We reviewed the plans of 20 per cent of councils, of all types, and found inconsistency in their quality. The main weakness was an absence of quantified information about the estate and its current use. Plans did not generally include financial information about:

- the value of buildings on the open market;
- the costs of bringing buildings up to a saleable condition; or
- the opportunity costs of tying up value in buildings.

91 No plans contained all of these data, and only half contained any quantification of targets for capital receipts. Many plans also lacked detail about the councils’ ambitions for the estate and possible alternative uses. Councils need data-rich, rather than aspirational, asset management plans, if those plans are to make a useful contribution to strategic asset management. Data must, of course, be collected intelligently, balancing the costs of collection with the benefits to decision making.

Government policies

92 Not all the barriers to strategic asset management are within councils’ control. The framework of rules and incentives set by central government can constrain or empower them. Central government has sought in recent years to reduce the burden on councils of providing it with information. One example is the removal of the obligation to submit asset management plans, but the absence of the obligation may have led to some councils ceasing to keep their plans up to a high enough standard. This has led some to suggest that government reintroduce a requirement to produce asset management plans. While this would undoubtedly ensure that plans are prepared and updated, our main finding is that it is the quality, not the existence, of plans that makes a difference to the quality of asset management. It is not clear that compulsion would make a difference to that.
Central government has not taken opportunities to encourage efficiency in asset management. The annual efficiency statements prepared by councils between 2004 and 2006 did not require them to quantify savings from asset management, and only around a fifth did so. Efficient management of land and property is not directly addressed in any of the national indicators within LAAs, although two (NI 185 on reducing CO₂ emissions from local authority operations, and NI 194 on the level of air quality affected by local authority estates and operations) are relevant to a degree. Perhaps most tellingly, when councils were asked to bid for unitary status, bid guidance documents made no explicit reference to property (even though some bids did mention property). Here was a missed opportunity. The government could have raised the profile of asset management and secured rationalisation of the local government estate where two or more councils were being merged.

SR04 required councils to dispose of £4 billion worth of fixed assets a year until 2010, which they achieved until the current economic downturn. Achieving £100 million efficiency savings from revenue and capital budgets was likewise readily achievable in the early period. Both objectives are unlikely to be achieved in 2008/9 and 2009/10. The new aspiration for local government capital receipts for 2011/12 to 2013/14 is £11 billion, including financial assets, to take account of more difficult financial circumstances.

The availability of prudential borrowing led to higher spending on assets. Councils used this facility to improve the quality or size of their estates, or to pursue projects previously postponed because they lacked access to investment funds.

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i NI 4 (% of people who feel they can influence decisions in their locality) and NI 7 (Environment for a thriving third sector) have some bearing on community transfer of assets.

ii Some councils did include rationalisation of property in their bids, but it is too early to determine what savings will accrue as a result.
The absence of a mechanism confronting budget holders in most councils’ service departments with the real cost of the capital they use, combined with the widespread perception that councils have better access to capital than to revenue funds, led to councils paying closer attention to revenue than to capital. Private companies may minimise the value of assets that they hold because return on those assets is a figure closely watched by shareholders, who want a specified return on their capital. And the cost of capital in the form of depreciation affects reported profits. A version of this applies to the NHS estate, where a rate of return on capital employed is set by the Treasury and affects revenue budgets.

The continuing constraints on the use of capital surpluses have led to them being reinvested or held in unused balances because they cannot be used to improve services. Again, in the private sector, the fact that profit or loss on disposal becomes a revenue item provides an incentive to dispose of valuable surplus property. Councils, unable to deploy disposal surpluses on their priorities, have no such incentive.

None of this should be taken as a criticism of the individual measures above. But taken together, they have signalled that property savings were not the highest priority, despite the exhortations in the Lyons Report (Ref. 7) and in the commentary on the 2007 spending review by CLG. In this context it is not surprising that councils prioritised investment to improve over receipts and savings.

Further, councils may be unwilling to devote the often substantial revenue resources needed to bring assets to sale. Revenue budgets are tight and, if a sale or redevelopment falls through, the revenue budget or reserves are used to make up the deficit. This means that councils may be unprepared even to consider in detail an option appraisal aimed at reconfiguring their estates. One council said that its members would not be prepared to agree to a serious options appraisal, which could cost up to £250,000. They preferred to continue with a £40 million backlog of property maintenance, and a make-do-and-mend rather than a whole-life approach.
The recession

Until the end of 2008, property markets had been buoyant for much of the preceding decade. It had been relatively easy to sell property and finance investment. As we have seen, many councils did sell, but also bought. But property values have been falling as the market stalled.

Our survey showed a majority (85 per cent) of directors of finance believe that capital receipts will be cut in the downturn. Over a quarter believe they will be reduced by between 80 and 100 per cent, and this varies little by type of council. Our fieldwork supports this finding – for example, one metropolitan borough we visited that received an average of £20 million in annual capital receipts (as high as £60 million in some years) forecast that it would struggle to achieve £10 million receipts in 2008/09.

Figure 17 Councils think that the recession will reduce their capital receipts
Can you please tell me by how much do you expect your authority’s capital receipts to be down this year a result of the economic downturn?

Source: Ipsos MORI telephone survey of 80 councils
Base: all those who think capital receipts will be down due to the downturn (70 councils)
102 Another survey of 27 county treasurers (Ref. 23) found that:
- twenty-five were finding it harder to generate capital receipts;
- most said the drop in receipts was 20 to 30 per cent, for five up to 50 per cent; and
- the average receipts forecast revised down from £17 million to £12 million.

103 In *Crunch Time?* (Ref. 24), the Audit Commission said council income would fall as demands for spending rose. In the light of the difficult outlook for public finances presented in the 2009 budget, councils will want to look to their assets as a source of receipts. However, they will be able to sell less property, and get lower receipts. Developers are reluctant to engage in new capital projects, and some have pulled out of contracts. The potential £3 billion in net receipts identified in Paragraph 39 would not be achievable now.

104 In seeking to survive the recession and in preparing for the eventual upturn, councils could:
- seek savings and plan for a reduction in service levels in anticipation of the big cuts in public spending which some argue are necessary to re-balance the public accounts after the bank bailout;
- invest in property, taking advantage of lower prices and greater supply. The case could be made as part of a regeneration plan or in order to build capacity. In times of recession, councils or local partners could secure assets that previously would have been out of reach; and
- adopt a variety of strategies to boost community use of assets described by CLG in the 2009 paper, *Looking After Our Town Centres* (Ref. 25).
The best course of action will depend on local circumstances. Decisions on individual buildings or pieces of land may have to be taken as opportunities arise. But councils which have thought about strategic objectives will be better equipped to get best value for taxpayers. Chapter 5 describes how strategic asset management can help them to do so.
Chapter 5

Improving the estate

The role of local government 62

The role of central government 73

The role of the Audit Commission 74
The role of local government

106 Even where market conditions are turbulent and economic prospects uncertain, the principles set out in Hot Property (Ref. 2) in 2000 remain relevant in 2009.

107 Councils need to:
- raise the profile of asset management;
- search for innovative ways of providing services;
- review holdings; and
- improve basic management procedures.

108 As in 2000, the prize is a leaner, more fit-for-purpose estate that provides better value for users and taxpayers (for example, lower council taxes). This section looks at how strategic councils have achieved gains and gathers together the lessons for all councils.

109 Strategic managers of land and property have:
- identified and disposed of surplus and under-performing assets;
- reconfigured services and administration so they occupy less space, generating surplus property for sale or transfer;
- shared premises with other public bodies to make more efficient use of assets;
- made premises available to third sector organisations to intensify the use of assets; and
- configured buildings or moved to sites that better suit the public and their own staff.

110 Councils that have done this have shown that the prize from following a strategic approach to asset management is not only an improvement in Use of Resources scores, but tangible service and efficiency improvements. For example:
- One county council improved access for service users by integrating its customer access strategy with property management. Its new office is based on flexible working principles and co-locating services for more efficient delivery, and will reduce floor area by some 29 per cent.
- By coordinating its capital programme, revenue-funded repairs and maintenance programmes and using externally generated funds, a London borough has reduced the maintenance backlog of the existing estate by three-quarters in five years.
Through a rationalisation programme and smarter measurement of energy consumption through real-time metering information, one rural district council has been able to reduce CO₂ emissions from its buildings and reduce utility bills by £144,000 for 2007/08.

A metropolitan borough council has undertaken an extensive office accommodation rationalisation programme based on robust data and analysis of performance indicators. Between 2001 and 2007, space utilisation was improved from 14 metres squared to 11 metres squared per employee (this reduction exceeds the average found by CLG of 12 metres squared to 11 metres squared from 2001 to 2006). Capital receipts were £2.8 million and running costs were reduced by £520,000 per annum.

One unitary council has not only been able to increase occupancy of its flagship office building from 1,200 to 1,500 staff through effective rationalisation, but has built an award-winning, multi-use community building housing a range of services including libraries, social services, adult education, a parish council, customer services, police, health and citizens advice. This has enabled the delivery of a wide range of public services to predominantly rural communities that would otherwise not be possible through traditional delivery models.

A district council shares space in its civic centre campus with the county council, police, primary care trust, a third sector organisation and a mental health trust. It is also hosting shared services for revenue and benefits with two other local district councils from which it earns rental income.

To replicate this sort of success and secure savings, councils will need to invest to overcome the barriers identified in Chapter 4. While investment funds may be hard to find, case study evidence suggests that well judged investment in these areas can pay dividends.

Given the deficiencies of nationally available data and the current state of property markets, it is impossible for us to estimate the potential financial benefits available across the whole estate from better asset management. We indicated in Paragraphs 32 to 42 that, had councils made different decisions since 2000 and prioritised securing receipts from the estate, and had they been able to secure receipts of the order achieved by the 80 who made a net surplus, £3 billion less might have been spent. Had they all made revenue savings of the order reported by those who responded to our survey, they could have spent £30 million less a year in revenue since 2003.
113 This does not give us a good basis for assessing the potential savings available at a national level from better asset management in future. The market for office property has declined and the potential for securing receipts from asset disposals has diminished, at least until the market recovers. But while figures of this magnitude are unlikely to be attainable in the near future, the savings available from the estate are still likely to be significant.

114 In order to calculate accurately the potential financial benefits to them from better asset management, councils need to collect a range of data on the costs and current utilisation of the office estate. As we highlighted in Paragraphs 69 to 74, these data are seldom kept.

**Invest to improve internal capacity**

**Investing in data**

115 *Hot Property* (Ref. 2) said councils needed to develop financial and management information systems because ‘lack of information had prevented them comparing the use and cost of their estates both internally and against other authorities’. This criticism can be repeated now.

116 Councils should not collect data for the sake of having information. Good councils collect only what they need in order to understand the assets that they have; their value; what condition they are in; and how they are being used. They need to know how many staff occupy a given property and how it is contributing to service delivery. Such information should be collected and updated regularly.
Beyond basic information in the fixed asset register, councils need information on size, use, occupancy, condition, suitability and running costs. But additional information should only be collected where it will help in making specific decisions. A preliminary step is to build basic information on the whole estate to enable some initial judgements on the potential of different assets, and thus indicate what further information may be required about some of them. Appendix 3 sets out a range of sources of information about the type of data that councils might want to consider collecting about their property assets.

Case study 3
Sevenoaks District Council
Since the late 1980s, the Council has been mapping each building it owns, as well as reviewing records that let it assess what is needed, what can be sold, what should be refurbished and so on. It started a formal asset maintenance regime in 2000 which includes a five-year rolling survey of the condition of all its property. Reviews are forwarded to senior managers and councillors in the cabinet. The Council has graduated information that allows it to focus on cutting energy costs and compare its performance against others.

The Council has raised £3 million in capital receipts from disposing of surplus property since 1999. It has consequently identified annual revenue savings of £304,000 a year on these disposed properties and has reduced maintenance backlog by a one-off saving of £221,000.
The natural home for these data is the asset management plan. We found that plans lacked quantification and detail, and could be improved by including more numerical data about the nature, utilisation and value of the estate. This also enables asset management to be built into the council’s normal management cycle.

### Case study 4
**Cambridgeshire County Council**

The Council undertakes a quinquennial review (suitability survey) of all its property assets against consistent criteria, classifying property into the following four categories:

- Continued maintenance (45 per cent).
- Better utilisation (33 per cent).
- Long-term development (16 per cent).
- Surplus (6 per cent).

The most recent review concentrated on the non-schools estate. The continued maintenance properties, which are generally fairly new, are considered to be appropriate for current and future service needs. Through its estates team the Council focuses on property in the better utilisation category. In these properties, poor utilisation issues are likely to be addressed by a range of solutions such as alternative use, amalgamation, refurbishment, partnerships, or a change of tenure.

The long-term development category applies mainly to parts of the Council’s substantial agricultural estate where it is located around Cambridge, the market towns and villages. As the settlements expand, changes in planning designations result in land being released for residential and commercial development, thereby generating substantial open-market-based capital receipts many times higher than the existing agricultural values.

The recent review forms the basis of the Council’s 10 year Better Utilisation of Property Assets Programme. The programme is aimed at realising £110 million of receipts through property disposals, investing £87 million in frontline services and achieving a surplus of £23 million for either reinvestment in accordance with the Council’s priorities or for the repayment of debt.
Case study 5
Lancashire County Council

In addition to its annual corporate and directorate asset management plans, the council produces an annual property performance report linking performance measures directly to the council's various objectives. It includes all the national property performance indicators, together with a wide range of local indicators covering condition, suitability, maintenance, utilisation of office space and the extent of property sharing with partner agencies. For each indicator, data are presented for the last four years, together with targets for the next three years ahead.

The annual property performance report is presented to senior officers and cabinet for discussion. The same detailed information about individual properties that goes into the annual performance report is used in the Council's property review process to provide the baseline assessment of premises prior to gap analysis.

This has led to an office accommodation review in one part of the county that generated £2.4 million in capital receipts, together with £270,000 ongoing revenue savings during the last year. Overall the value of the highest priority required maintenance has fallen from over £1 million to less than £200,000 over the past four years and total floor space per full-time equivalent employee has fallen from 11 square metres to 10 in the last two years. All this has stemmed from good use of data and property performance indicators.

Investing in skills and capacity

Skilled staff are needed to collect and interpret information. In one district council, we found staff with excellent knowledge and skills, but the council was giving little thought to succession planning, and might lose capacity when staff leave or retire.
Getting financial benefit from ‘lean’ property holdings depends on people and information. Not spending in these areas is a false economy. Local government has not traditionally been a first choice career for property specialists in booming property markets. One council we visited reported that a third of the posts in its property strategy team were vacant. This should not be the case during the downturn in the commercial property market and councils should be attracting experienced professionals.

This could involve recruiting them either on temporary or permanent contracts. It could also, as part of a council’s wider regeneration strategy for the recession, involve commissioning work from surveyors and other property professionals in the private sector. For example, they could be contracted to review all property in an area on behalf of the LSP. This would generate useful information for local public bodies, allow them to share the costs involved, and promote employment. More generally, Tomorrow’s People (Ref. 26), our report on the local government workforce published in 2008, made recommendations to councils seeking to recruit and retain staff in critical professions.

Councils should also make full use of the support from within the local government community. Both the 4Ps’ new property asset management review process and the Beacon Council programme for asset management are available for councils considering how to improve their approach.

Investing in comparison

Since Hot Property (Ref. 2), the number of councils using property performance indicators has increased, but this study showed that both strong and weak councils do not benchmark effectively. This is a missed opportunity. Comparison of performance is vital and open-minded councils can sometimes learn from councils with weaker overall performance.

The Audit Commission, in collaboration with the National Audit Office, the Wales Audit Office, Audit Scotland and the Northern Ireland Audit Office launched a set of corporate value-for-money indicators in 2007. Benchmarking services linked to those indicators have been established and are developing; the more councils that participate the greater the value to all will be. The estate management indicators (which sit alongside indicators covering procurement, human resources, IT and finance) are among those we recommend councils use (Ref. 27).
125 Councils should also consider the National Property Performance Management Initiative (NaPPMI) indicators, developed by members of the Federation of Property Societies (FPS). Over 150 councils currently benchmark these indicators under the National Best Value Benchmarking Scheme, run by FPS and CIPFA Property.

Invest in partnership and collaboration
126 There are challenges for councils trying to work in partnership, particularly the amount and quality of data that different public bodies hold; their willingness to share them; and their different accounting practices. But there are no legal or structural obstacles to joint management of land and property. Assets can be managed in partnership.

Case Study 6
Wychavon District Council
The Council used assets as enablers of change in schemes for a supermarket and a hospital. The Council said the area needed a district hospital which the NHS was unable to provide. It built one, which is now let out to the primary care trust and is earning the Council a strong return of some 7 per cent on its investment. The Council also built an £8 million retail outlet in 2004/05, which is leased to a supermarket chain and generates substantial revenue and contributes to the regeneration of the central area of the town.

127 The key is that the LSP should treat land and property as a shared strategic resource. A collective approach should cover all publicly owned land and property, not just new build projects, and can extend beyond local public bodies, enabling councils to play a broader community leadership role.
Case study 7
Cambridgeshire County Council

This Council has been leading an initiative, launched in October 2007, called Mapping the Public Realm. The initiative aims to map all the property assets for the public sector on to one single IT system accessible by public sector colleagues, hosted by the County Council.

The overall objective is to have the property and land assets owned and/or occupied by all public bodies (including the County Council) in the area, viewable on a web page. It is a tool to investigate and consider the joint use of land and property owned or occupied by a number of different public sector organisations, which will result in improved service delivery and cost savings to all concerned.

The scheme currently has information for the County Council, the county’s only major city council, three district councils, the county constabulary, some primary care trust sites and one town council. The Council is aware of the central government electronic Property Information Mapping Service which is a central database of civil estate properties, holdings and occupations.

The Council believes this is the first step in the process of strategic area-wide planning of public sector assets.

Shire Hall, Cambridge

128 Councils that do not themselves produce high quality data are not likely to be reliable partners. Forward-looking councils are mapping all buildings in public ownership in their areas.
Create incentives to rationalise

129 It is up to councils whether they divest or invest, sell or buy, provided that they are clear about objectives and act to realise them. We recognise that rationalisation is not the only legitimate objective of councils’ property management, but with revenues set to fall, more councils will have an incentive to find opportunities to rationalise further, seeking capital receipts and revenue savings.

130 Much scope remains for councils to rationalise their estates and make genuine capital surpluses and revenue savings. This is borne out in the Audit Commission’s Use of Resources judgements and by the sites we visited as part of this research. Councils, too, believe that much is yet to be done, with over 90 per cent of respondents to our survey reporting that they have outstanding opportunities for rationalisation. Indeed, only 5 per cent think that there is nothing left to do.

Figure 18 Most councils think that they can rationalise their estates further

How would you best describe your authority’s operational estate?

<table>
<thead>
<tr>
<th>Description</th>
<th>Percentage</th>
</tr>
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<tbody>
<tr>
<td>Rationalised and no more potential</td>
<td>4%</td>
</tr>
<tr>
<td>Rationalised but further potential</td>
<td>23%</td>
</tr>
<tr>
<td>Haven’t rationalised but have identified potential</td>
<td>65%</td>
</tr>
<tr>
<td>Reviewed estate but no potential</td>
<td>5%</td>
</tr>
<tr>
<td>Haven’t reviewed estate and don’t know potential</td>
<td>2%</td>
</tr>
<tr>
<td>Don’t know</td>
<td>1%</td>
</tr>
</tbody>
</table>

Source: Ipsos MORI telephone survey of 80 councils
Base: 80 councils
In order to understand the opportunity cost of holding assets and to assess rationalisation opportunities, managers need to know the market value of alternative uses of property as well as the direct costs of occupancy.

Rationalisation opportunities will not identify themselves. Where budgets are held by service managers, they need to see their use of capital as part of their costs if they are to have incentives to seek rationalisation opportunities. Councils have designed capital charging arrangements in the past that have proved unsuccessful where budgets have simply been built around service departments’ current use of assets. But the experience of some shows that, when combined with a rigorous budgeting process, this approach can bring home to service managers the importance of frugal asset use.

Case study 8
London Borough of Wandsworth
This Council has rigorously controlled its asset base for many years with the objective of minimising the amount of capital it employs. It has sold over £1 billion of surplus assets since 1980. Capital receipts from sales of surplus assets are an important source of finance and have allowed the capital programme to be funded entirely without borrowing. The absence of debt, and consequently no interest payments, maximises revenue available for frontline services and minimises council tax.

A strong corporate property function sets the Council’s overall property strategy and ensures that services act in tandem. But service departments bear the cost of capital in their own budgets and have other financial incentives to identify and dispose of surplus properties, in some cases, including keeping a proportion of the proceeds.

Rationalising the occupancy of properties to push out surpluses has to be engineered through imaginative service redesign. The Council has motivated its service directors and property managers to think about how they could operate with less.

Knowing the estate and its hidden potential has been key. The Council knows how much its buildings would be worth on the open market and how to maximise their value by granting appropriate planning permission and by spending to bring assets to market in suitable condition.
One way to assess the market value of properties is simply to publish details of all property holdings and invite proposals for alternative use. Councils may find that the market will identify opportunities they had missed, though they may need to be careful not to raise unrealistic expectations in the market or community of what will be done. These can be controlled, at the cost of limiting the creativity of proposed solutions, by providing some indication of which assets a council considers core to service delivery, which are surplus and which fall into neither category (the Treasury’s Operational Efficiency programme (Ref. 28) made a similar recommendation across the whole government estate).

The role of central government

As indicated in Chapter 2, central government has multiple expectations of local government’s use of its property assets. As a result, some councils have been confused about what their priorities should be, or nervous about pursuing their own aims where those appear to conflict with government aspirations.

Central government could make clearer what its expectations are. Different departments have given a variety of messages at various times. Those about savings have been weak and targets less than stretching. If, in recessionary times, saving money from the property estate is a higher priority, then the drivers and incentive structures in place need to reinforce that message.

Central government has reduced targets and relaxed reporting requirements on local government, and replaced compulsion with guidance. In this context, investment in the local government estate grew, increasing its value, although not necessarily its size.

If central government wanted to secure savings from the estate, it could:

- consider revisions to the capital financing regime that would create an incentive for councils to rationalise property. Notional charges based on the value of capital or notional rents have proved ineffective in the past. But a mechanism by which the costs associated with using capital are more effectively brought to bear on councils’ income and expenditure accounts is essential to create such an incentive;
consider better aligning the planning and capital finance regimes of different local public services to encourage asset sharing;

change capital accounting rules to allow local government to use receipts for specified property-related purposes other than investing in property. As noted earlier, this could have a number of beneficial effects, particularly in the current economic downturn, and any amendment of the rules could be time limited. Councils could use capital receipts for revenue expenditure connected with savings, to bring more property to market, or to commission area-based reviews of property, for example; or

require or seek to encourage more explicit and more stretching targets, through reviewing or renegotiating LAAs.

The role of the Audit Commission

138 While the performance management and incentive regime bearing on property is for central government, the Audit Commission can encourage prudent and strategic asset management:

- Within CAA there is a new Use of Resources assessment, which forms part of the Organisational Assessment of local public bodies, including councils. It is based on key lines of enquiry built around the findings of this study, as KLOE for CPA were informed by *Hot Property* (Ref. 2). We will assess councils against demanding standards of asset management competence. The old and current KLOE are set out in Appendix 2a and 2b.

- CAA will look at the extent to which local partnerships are achieving desired outcomes for their areas. Where opportunities for asset sharing or cooperation are missed and this contributes to a failure to achieve outcomes, the Audit Commission and its partner inspectorates will report, stimulating local bodies to work better together.

139 The Audit Commission will provide continuing help to councils to improve their approach to managing land and property. Specifically, we will:

- publish detailed case studies of excellent asset management;
- support councillors in scrutinising how councils are managing assets;
- assess councils’ stewardship of property through Use of Resources assessments;
- continue to develop benchmarking services with other audit agencies; and
- publish further guidance and good practice examples on the Improvement Network website.
Conclusion
140 Because the local government estate consumes capital and is expensive to maintain, councils must use this resource well to provide better value for money for residents, service users and tax payers. That means seeking savings from the estate as well as using it creatively and collaboratively to achieve local objectives.

141 In 1998, the Audit Commission said councils should manage property on a planned and comprehensive basis, and we reiterated this message in *Hot Property* (Ref. 2) in 2000. It is now accepted that offices and other buildings should be treated as an essential component in delivering services and in improving the environment, community and economy.

142 But councils’ progress has been modest, far from uniform and needs to accelerate. They have brought property management into the corporate centre and adopted asset management plans, but have often failed to realise the full benefits of a strategic approach to property.

143 The government has urged councils to cut the size of the estate and release capital by identifying and selling underused or surplus properties, and to use office space more efficiently. But, overall, the value of the estate has continued to increase. This is partly because, until recently, the property market and the general economy were buoyant. The imperative to save by rationalising holdings was weak and the opportunity to improve the estate provided by new capital rules was attractive. Government policies have neither motivated nor compelled councils to seek savings.

144 Even so, most councils have disposed of some property assets, and some have made significant net financial gains, but the majority have chosen to reinvest the proceeds and more in an improved estate. Disappointingly, few can demonstrate financial or non-financial benefits from their investments in their assets.
145 Councils are willing to consider transferring property to community groups, following the Quirk Review, but the volume and value of buildings transferred have been limited and community transfer seems unlikely to affect the local government estate to any great extent. The capacity of the voluntary and community sector to assume responsibility for managing assets is questionable, and councils are concerned about the probity of sale at less than full market value. Councils have adopted a cautious approach, preferring to keep ultimate ownership.

146 LAAs and LSPs have failed to make an impact on cross-sector management and utilisation of property. This is because the issue is not high on the LSP agenda, a fact reflected in the absence of LAA targets for use of buildings and land.

147 The recession and the diminishing pool of assets available for sale will make it harder for councils to maintain the level of receipts seen over recent years, but it will, at the same time, increase the pressure on them to do so. Councils and the government need to consider what the best use of property assets in more difficult economic circumstances is: should councils spend or save?
148 Few councils are well equipped to make those judgements, principally because they do not have all the information they need. Building the right information base for making decisions will equip them well to survive the recession and to exploit the opportunities it might present, and help them position themselves to take advantage of recovery.

149 This report illustrates what can be done and has been done by forward-thinking councils as well as reporting the overall position. The Commission will provide materials to help councils improve their performance. CAA will assess how well councils and other public bodies deal with property against a more demanding standard. As an assessor, and by providing tools of practical use, the Commission will play its part in improving the value councils secure from their assets.
Appendices

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Appendix 2b – Key line of enquiry 3.2 criteria for asset management in 2009 Use of Resources assessments 87
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Appendix 1 – Research methodology

Research for this report was carried out between August 2007 and January 2009. The research comprised six elements:

- Visits to 22 councils during 2007 and 2008 consisting of in-depth interviews with senior finance officers and asset managers;
- A telephone survey of 80 council directors of finance and resources undertaken on behalf of the Audit Commission by Ipsos MORI;
- Our analysis of the findings of the Audit Commission’s use of resources assessment of asset management;
- Analysis of CIPFA statistics and capital outturn returns from CLG;
- A review of annual efficiency statements, asset management plans and councils’ bids for unitary status; and
- A review of the literature in this area.

Fieldwork
Between August 2007 and July 2008 the study team visited 12 councils to discuss broad topics relating to the subject of asset management, and to refine the parameters of the study and the research methodology. During this time the team piloted the idea of matching councils with statistically similar neighbours (using the CIPFA nearest neighbour model) but which had significantly different asset values in their published accounts. While broader discussions about the potential for savings, rationalisation and sharing of assets were fruitful, the team identified weaknesses in the quality of local and national data, as well as inconsistent interpretation of asset valuation methods, which meant that the matched pairs methodology was not continued into the main fieldwork phase.

Between September and October 2008 the study team visited nine councils varying by type and region. The site selection for the main phase of the fieldwork used the Audit Commission’s Use of Resources scores for the KLOE relating to asset management (KLOE 2.3). Councils were selected to allow comparisons between those with low and those with high scores. One further council was visited in January 2009 to test certain aspects of the report findings. Council visits consisted of in-depth interviews with senior finance officers and asset managers, lasting up to two hours in length, covering the extent of and potential for:

- Strategic asset management;
- Rationalisation and savings;
- Sharing assets with public sector partners; and
- Community asset transfer.
We are very grateful to the following councils for assisting with the fieldwork for this study:

- London Borough of Barnet Council
- Cambridgeshire County Council
- Derbyshire County Council
- Dudley Metropolitan Borough Council
- East Riding of Yorkshire Council
- London Borough of Harrow Council
- Hertfordshire County Council
- Lancashire County Council
- Leicestershire County Council
- Leeds Metropolitan Borough Council
- North Somerset Council
- Northampton Borough Council
- Plymouth City Council
- Sevenoaks District Council
- Shropshire County Council
- Somerset County Council
- South Gloucestershire Council
- Southend-on-Sea Borough Council
- St Helens Metropolitan Borough Council
- Walsall Metropolitan Borough Council
- Wandsworth Borough Council
- West Somerset District Council
- Wychavon District Council

Survey
Between 3 December 2008 and 20 January 2009, Ipsos MORI conducted 80 telephone interviews with senior council officers with responsibility for asset or resource management. Initially, directors of finance or resources were targeted and referrals to other senior members of organisations were taken when appropriate and where they had significant knowledge of asset management within their authority.

**Table 1 Breakdown of survey respondents by job title**

<table>
<thead>
<tr>
<th>Title</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Director of finance or senior/Chief finance officer</td>
<td>55</td>
</tr>
<tr>
<td>Heads of property/Estates/Land management</td>
<td>16</td>
</tr>
<tr>
<td>Director of resources</td>
<td>8</td>
</tr>
<tr>
<td>Deputy chief executive</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>80</strong></td>
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Respondents were asked to collect numerical data relating to the management of their authority’s assets prior to the telephone interviews. A data collection form specifying the information required was distributed to potential respondents as an attachment to the pre-survey email. Respondents were then asked to supply these data to the interviewer during the course of the telephone interview. Additional completed data forms were collected from those councils which had completed the form but did not take part in the survey.

During the course of the interview, respondents were asked questions about:

- their authority’s approach to asset management;
- the data and information held by their authority relating to property and asset management;
- their authority’s portfolio and its approach to the disposal of operational property;
- their authority’s approach to rationalisation of its assets;
- community transfer of assets;
- partnership working in relation to asset management; and
- the effect of the economic downturn on the management of assets within their authority.

Quotas were set by authority type, CPA score, Government Office Region, UoR score for key line of enquiry 2.3 (which assesses asset management) and revenue spend. Quotas for all categories bar authority type were selected in proportion to the profile of all English councils. County Councils and Unitary Authorities were over-sampled to ensure that there was sufficient representation of these types of council to permit reliable analysis of their responses.

Data were weighted by council type, region and revenue spend. The total number of interviews, both unweighted and weighted, by subgroup is outlined in the Table 2.
### Table 2 Weighting criteria

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<tr>
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#### CPA score

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#### Use of Resources score

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<th>Weighted %</th>
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#### Government office region

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#### Revenue spend

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<td>Large (i.e. over £50 million)</td>
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External advisory group
An external advisory group assisted in developing the research framework and analysing the findings. The Commission thanks all those who were involved, including representatives from:
- Communities and Local Government
- HM Treasury
- CIPFA Property
- Improvement and Development Agency
- Local Government Association
- National Audit Office
- Hertfordshire County Council
- Local Government Task Force
- 4Ps
- Operational Efficiency Programme
- Office for Government Commerce
- Association of Chief Corporate Property Officers
- Association of Chief Estates Surveyors
- Audit Scotland
- Federation of Property Societies
Appendix 2a – Key line of enquiry 2.3 criteria for asset management in 2008 Use of Resources assessments

KLOE 2.3 The council manages its asset base

Level 2 criteria – minimum standard

- The council has an up-to-date corporate capital strategy linked to its corporate objectives and medium-term financial strategy.
- The council has an up-to-date asset management plan that details existing asset management arrangements and outcomes, and planned action to improve corporate asset use.
- The council maintains an up-to-date asset register.
- The council has a designated corporate property function.
- The council’s arrangements for reporting to members are sufficient to ensure that they fulfil their responsibility in relation to the council’s land and buildings portfolio at both a strategic and service level.
- The council has an annual programme of planned maintenance based on a rolling programme of property surveys.
- The council has assessed the level of backlog maintenance.
- The council’s capital programme gives priority to potential capital projects based on a formal, objective approval process.

Level 3 criteria – above minimum standard

- A member has been allocated portfolio responsibility for the council’s asset management.
- Members are aware of the level of backlog maintenance and have approved a plan to address it as appropriate.
- The council makes investment and disposal decisions based on thorough option appraisal and whole life costing.
- The council’s asset management plan provides clear, forward looking strategic goals for its property assets that shows how the council’s land and buildings will be used and developed to help deliver corporate priorities and service delivery needs, now and in the future. The plan shows how property assets will be maintained, modernised and rationalised to ensure that they are fit for purpose.
- The council maintains a record of all of its land and buildings that contains accurate data on its efficiency, effectiveness, asset value and running costs which can be used to support decision making on investment and disinvestment in property.
Level 4 criteria – well above minimum standard

- Performance measures and benchmarking are being used to describe and evaluate how the council’s asset base contributes to the achievement of corporate and service objectives, including improvement priorities, sustainability objectives and setting challenging targets for improvement.

- The council fully integrates asset management planning with business planning at corporate and service levels. The role and contribution of property is explicit in business plans such as flexible working policies, ICT plans and customer access strategies.

- The council uses its property portfolio as an enabler of change. It understands the opportunity cost of its property and exploits this to deliver better value for money and benefits for the local community.

- The council integrates the management of its asset base with others – for example, third sector and local public agencies – to identify opportunities for shared use of property and to deliver seamless cross-sector, cross-agency and community-based services to users.

- The council challenges whether all its assets are required, are fit for purpose and provide value for money to meet current and future needs by monitoring property performance and undertaking periodic property reviews. The council rationalises or disposes of under-performing or surplus assets.
Appendix 2b – Key line of enquiry 3.2 criteria for asset management in 2009 Use of Resources assessments

KLOE 3.2 Does the organisation manage its assets effectively to help deliver its strategic priorities and service needs?

KLOE focus

The organisation:
- has a strategic approach to asset management based on an analysis of need to deliver strategic priorities, service needs and intended outcomes;
- manages its asset base to ensure that assets are fit for purpose and provide value for money; and
- works with partners and community groups to maximise the use of assets for the benefit of the local community.

Why is this important?

Managing public assets effectively provides value for money, enhances public services and delivers wider economic, environmental and social outcomes for local communities. Conversely, poor asset management represents poor value for money and presents a barrier to transforming public services and achieving efficiencies.

Effective asset management to provide assets that are sustainable, fit for purpose and provide value for money involves the organisation:
- disposing of assets it doesn’t need;
- maintaining, rationalising and developing the assets it keeps; and
- acquiring and building the assets it needs.

The KLOE focuses on strategic asset management. This goes beyond inward-looking plans to manage the current asset base and shows how the asset base will be developed in the longer term to deliver strategic priorities and community needs.

The scope of asset management in the context of this KLOE encompasses buildings, land and transport infrastructure assets. For the police and fire sectors it also encompasses vehicle fleet assets.
Sector guidance for local government
Most people use public assets such as council buildings, leisure centres, libraries and the highway network on a regular basis. They are fundamental to the economic, social and environmental well-being of the community and neighbouring areas. They help shape the character of local areas and influence the quality of life for local people. They make an important contribution to local priorities including education, health, social inclusion, community safety and sustainable development.

Government interest in public sector asset management is currently at a high level. It links to many government policies aimed at achieving efficiencies, transforming public services, giving communities more power, improving the transport infrastructure and addressing climate change (the latter point is covered in the guidance for KLOE 3.1 on the use of natural resources).

A priority for the government is to empower local communities through managing or owning community assets. CLG commissioned an independent review which looked at Community Management and Ownership of Assets, led by Barry Quirk, a council chief executive officer. The review looks at the barriers which may be standing in the way of more communities managing and owning assets and recommends ways to create an environment to encourage more community management and ownership of assets.

This KLOE guidance should be applied proportionally, taking into account the size of the council’s asset base and the local context. The main components of this KLOE will apply to most councils but the application should be proportionate to the size of the property portfolio, local needs and risks.

Drawing links between this KLOE and the managing performance theme of the CAA organisational assessment will also be important. For example, managing performance asks ‘does the organisation have the leadership capacity and capability it needs to deliver future improvement – in relation to priority services and outcomes?’ How the organisation ensures it has a productive and skilled workforce in the medium to longer term and how it engages staff in organisational change will be critical in supporting this question.

Note: for 2008/09 this KLOE will only be applicable to single tier and county councils, and will not be assessed at district councils.
What might you expect to see?

Strategic approach

What’s this about?
This is about the council having a strategic approach to asset management that is integrated with corporate and service planning. To implement an effective strategic approach, the council will need support and direction from the leadership to use and develop the asset base as a corporate resource to deliver strategic priorities, improved services and value for money.

Getting the basics right – what might you expect to see?
The council has strategic plans for assets that show how it will develop them to meet strategic priorities and operational and service needs.

The council’s financial and other plans support the delivery of the strategic plans for assets, either through investment, disposals, transfers and rationalisation or by more efficient asset use. Financial plans show how the financial gap (if any) between the need to invest in assets and the budget available will be filled over the long term (for example through prudential borrowing, rationalisation of assets, capital receipts etc.).

Policies, decision-making structures and roles underpin the management of assets as a corporate resource. Responsibilities for assets are clearly designated to functions and roles within the council. For example, there might be a designated corporate property officer with responsibility for strategic asset management activities, and a corporate group providing direction on asset-related strategies across the organisation. Members actively engage in policy development for the asset base.

Performs well – what else might you expect to see?
The council has an organisation-wide approach to managing assets as a corporate resource as opposed to a compartmentalised, departmental-driven approach. There is a focus on using the asset base to help deliver sustainable social, environmental and economic outcomes for local communities.

Asset management planning is fully integrated with the council’s corporate and service planning with a clear alignment between asset plans and other corporate and service plans. Asset plans consider and take account of the implications for the assets base of medium and longer-term service planning and this is coordinated across service boundaries.
Strategic asset plans are supported by realistic and robust implementation plans for:
- maintaining and utilising current assets;
- reducing current and long-term costs (financial and environmental) of asset use;
- realising the benefits of holding assets, such as making efficiency savings, increased income, delivering wider community outcomes or better customer access to services;
- disposing of or transferring surplus assets; and
- developing and acquiring assets to meet current and projected needs and demand for services.

Managing assets to provide VFM

What's this about?
This is about the council managing its asset base to provide assets that:
- are fit for purpose;
- deliver better access to service users and outcomes for the community;
- improve value for money; and
- mitigate adverse impacts on the environment and are resilient to climate change.

Getting the basics right – what might you expect to see?
There is comprehensive information and accurate data on the asset base which includes, as appropriate, the size, use, value, tenure and an assessment of the fitness for purpose of the asset.

The council manages the performance and value for money of assets by challenging, managing, benchmarking and monitoring against targets for improvement. Asset management performance indicators are used to track performance and there is some evidence of the council meeting its targets. There is effective member scrutiny of the performance of the asset portfolio.
The council is narrowing the gap between the current condition of the asset base and an acceptable standard of maintenance with high levels of backlog maintenance being reduced. The property estate is generally well maintained and meets service needs. There are only occasional incidents of building component failures that result in interruptions to service delivery, complaints or health and safety incidents. Where these do occur they are dealt with promptly.

Capital investment supports the delivery of corporate priorities. There is a systematic process in place for appraising competing demands for spending on assets against corporate priorities. Significant investment decisions are evaluated using option appraisal and whole-life appraisal techniques. This results in consistent and transparent decision making.

**Performs well – what else might you expect to see?**

The council challenges whether all its assets are required, fit for purpose and provide value for money to meet current and future needs. The views of service users and communities inform reviews of the asset base. For property assets, there is a comprehensive programme of property reviews on both a geographical basis and on service functions. Under-performing or surplus assets are rationalised or disposed of in ways that deliver best value, in other words, through an appraisal of the options that strike a balance between cost/income and the delivery of outcomes for local communities.

The council compares its performance through benchmarking against other similar asset-holding organisations on selected industry standard performance measures and uses this to drive performance improvement.

Through the effective management of its asset base the council can demonstrate that it is:

- improving the overall condition of the asset base;
- reducing health, safety and security risks from its assets;
- upgrading and modernising facilities;
- improving access to services;
- mitigating environmental impacts from use of assets and providing resilience of its land, buildings and transport infrastructure to the effects of climate change; and
- protecting architectural and historical heritage where applicable.
Partnership and community working

What's this about?
This is about the council working in collaboration with partner organisations on strategic asset management planning across an area. Single tier and county councils would be expected to be taking the lead role on the development of partnership working on strategic asset management across an area. It is also about there being examples of councils working in collaboration with community groups to explore ways of empowering local communities through alternative options for the management and ownership of its assets.

Getting the basics right – what might you expect to see?
The council is starting to develop a strategic approach to working with others – for example, the third sector, local public agencies and community groups – to identify opportunities for shared use of assets, and alternative options for the management and ownership of its assets, to derive better value for money and wider community benefits. There might be examples of joint working on individual building projects. However, a strategic approach to collaboration is not yet evident.

Performs well – what else might you expect to see?
The council is actively working with partners in developing a long-term strategic approach for all assets used by public bodies across its area. There are plans aimed at developing opportunities for shared use of assets to provide value for money, single points of access to public services and wider community benefits. The council is exploring alternative models of sharing, ownership and management of public sector assets with its key partners, including the third sector and voluntary and community groups. A key indicator of progress would be that partnership working extends beyond joint working on individual building projects.

Further guidance can be found on the Audit Commission website at: http://www.audit-commission.gov.uk/useofresources/guidance/index.htm
Appendix 3 – Further sources of information on data management for councils

This section sets out some additional sources of information on measuring and managing property assets. Councils should be judicious and collect only those data which suit their circumstances and inform their decision-making processes. Data collection is often expensive, so costs should be weighed against the potential benefits which might flow from decisions underpinned by the data. For example, we would not advocate the routine open-market valuation of all properties, but we would suggest that councils have an eye for their likely market value which could be established by formal valuation under appropriate circumstances.

The Improvement Network site managed by the Audit Commission and other public service agencies in partnership contains a section on managing assets which provides useful links to key publications on this topic.

RICS Public Sector Property Asset Management Guidelines is a website set-up by the RICS 2008 and aimed at the public sector, which contains the RICS guide to asset management. This guide published in 2008 was commissioned by CLG and is endorsed by national agencies operating in the field of public sector asset management. RICS will publish a series of guidance leaflets on property management in 2009.

The Office of Government Commerce (OGC) keeps records on all the properties central government bodies use, on an electronic Property Information Mapping Service database (ePIMS). The ePIMS Core Data Dictionary lists and describes the property data held on the system.
Corporate Value for Money Estates Management Indicators
A common suite of performance indicators for back office services in the public sector covering estate asset management. Launched in 2007 by the main audit agencies including the Audit Commission. Benchmarking services against these indicators are provided by third-party providers under licence with the audit agencies. The latest updates to these indicators are published on the Public Audit Forum website.

The National Best Value Benchmarking Scheme is a benchmarking club for public estate assets set up by the property professional societies in conjunction with CIPFA to provide a benchmarking service especially for local authorities.

Measuring Suitability in Local Authority Buildings
References
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