Public sector asset management: a brief history

Dr Robert Harris
By RAMIDUS CONSULTING LIMITED
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Context

It is no coincidence that *facilities management* emerged as a distinct profession in the UK during the 1980s, when rapidly developing office technology and ever-more sophisticated building management systems were locked in a kind of arms race. As the buildings became more complex, they demanded a different kind of care. It is equally no coincidence that *corporate real estate management* spread during the recessionary 1990s, as global organisations sought to control their costs and standardise property management around the world.

FM and CREM have different representative bodies and different practitioner profiles, but they are two sides of the same coin. In recent times they have combined to change the way in which property is perceived within occupier organisations. For many, property is no longer treated as a passive, inert bi-product of doing business or delivering services, but rather as a measurable component of organisational planning, and one that must be provided in the same efficient and effective way as other organisational resources.

This is the context within which public sector asset management has emerged and continues to evolve. In many ways, the public sector has led the private sector. Perhaps more constrained by budgetary issues, it has consistently shown innovative approaches to workplace improvement; and it has in many respects led the flexible working styles agenda.

The formative years

During the 1980s, the public sector was ahead of the private sector in recognising the importance of managing real estate in a more proactive manner. Reports by Ceri Davies on the NHS estate[1] and Lord Gowrie on central government office accommodation[2] were two of the earliest to highlight waste in the management of public sector property. By the late-1980s, scrutiny was taking a more formal route with studies by government watchdogs the Audit Commission and the National Audit Office. Between them they produced reports on asset management in the Civil Estate[3], the Crown Estate[4], district councils[5], local authorities[6], the Metropolitan Police[7], and the National Health Service.[8]

The local authorities report concluded that while technical skills were often strong, property was an under-managed resource and that, "*the corporate or strategic function was underdeveloped*". This emphasis on the management function itself was the focus of a groundbreaking study by Reading University, which provided empirical evidence from both public and private sector organisations, concluding that

> *The picture which emerged was one of a lack of understanding of the role of property and little knowledge of the contribution it makes to the organisation.*[9]

The search was on, throughout the 1990s, not only to deliver cost cutting, but also new approaches to the use of physical assets to bring about long-term change. For example, a National Audit Office study on the management of office space in the Ministry of Defence demonstrated how space could be used much more *effectively*, devoting a whole section to "new working practices".[10] Similarly, an Audit Commission report on police authorities explored more innovative solutions rather than simply cost cutting.[11] This report accepted that the police service had adopted new styles of policing to improve service delivery, but that pressure *"to secure continuous improvement in economy, efficiency and effectiveness is relentless"*. Among the report's wide-ranging recommendations was the following:

> *Undertake regular reviews of space utilisation to maximise the use of available space: explore innovative ways of using space.*

Local authorities were also under the spotlight as the need for a strategic focus became more evident. A report by the Audit Commission on local authorities made the ultimate purpose of public sector property clear:

> *Authorities must sharpen the focus on property as a means of getting services to users as opposed to ownership being an end in itself.*[12]

But to make things happen would require a more strategic focus. A DETR report sought to address this with good practice guidelines for asset management, aiming to encourage consistency across all local authority services. In doing so, the guidelines called for "*an integrated approach between departments and the corporate centre*" and for the identification of individuals who would be responsible for the "*corporate property role*", and who would report to "*a strategic decision making committee*".[13]

Thus, by the turn of the millennium, a clear rationale for innovative approaches to the use and management of property estates within the public sector had been established. However, it seems that theory and practice were some distance apart. In 1999, and based on a survey of 163 English local authorities, the DETR was able to refer to "*The embryonic state of strategic asset management in many local authorities*".[14]

The size of the prize

Up to this point, at the turn of the millennium, there had been very little quantification of the *size of the prize*: the scale of the potential efficiency gains across the public sector. Part of the reason for this omission (a problem that endures today) was the quality of the data available.

The first major attempt in the private sector was made by economist Roger Bootle in 2002, who calculated that UK business was wasting up to £18bn a year on the inefficient use and management of space, with scarce financial resources tied up in costs that reduced competitiveness and profitability.[15] Bootle's study focused on office, retail and industrial property worth about £400bn at market value. Out of the total potential savings of £18bn, he calculated that hot desking and other new working practices "*could save British business … £6.5 billion a year*" while a "*10% reduction in facilities management costs is feasible and would save £1.3 billion a year*". Such figures hint at the relative differences between saving on space (paying less rent by occupying less space) and saving on service (driving down FM contract prices).

In 2003 the Government announced a cross-cutting review of public sector spending aimed at identifying the potential for efficiencies to release resources to frontline priorities. The Government accepted the main recommendations of Sir Peter

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Gershon's report[16], and the 2004 Spending Review set out agreed efficiency targets for each central government department.

The Budget of 2004 followed up the Gershon report by announcing the Government's ambition to cut administration costs in real terms and achieve efficiency gains, across the public sector, of 2.5% per year over the period of the 2004 Spending Review. This was expected to deliver efficiencies of £20bn a year by 2007-08, for redeployment to front-line public services. The Gershon report was reinforced later in 2004 by one from Sir Michael Lyons, who argued for better management of public sector assets.[17] He stated that the

> *asset base currently worth around £658 billion across the public sector underpins these services, and needs to develop to reflect and support their evolution.*

In submitting his report to the Chancellor of the Exchequer, Sir Michael set down a number of challenges to the Government.

- Generate efficiencies from assets that can be recycled into improving delivery.
- Develop asset management strategies that are driven by business plans.
- Make Departments responsible for assets in the control of their agencies.
- Ensure that managerial responsibilities for asset management are clear.
- Develop a clear focus on the scope for reducing office space requirements.
- Make strategic asset management an integral part of resource management and business planning, underpinning future investment decisions.

The implications for property were clear: a clear strategic asset management focus was required to bring about efficiencies in the Government's large estate. Sir Michael's call for improved efficiency in asset management had been trailed with a report recommending the large-scale relocation of civil servants from their high cost property in London to more cost effective property in the regions.[18] The report led to recommendations for an ambitious relocation strategy from central London to the regions, resulting in the relocation of 25,000 posts by 2010. At the time of writing, this target was on course to being met.

Towards more effective use of assets

Alongside these macro-studies on efficiency savings, there was a growing body of evidence demonstrating the organisational benefits of innovative approaches to asset management, including studies by Reading University[19], the OGC[20] and the National Audit Office.[21] Reading University emphasised the link between efficiency gains, organisational benefits and agility:

> *The need for efficiency gains, improved service delivery and greater overall responsiveness have lead to new approaches … In order to achieve this agility, organisations require a flexible resource base. The people, information and communication technology and the workspace need to complement each other so that overall flexibility can be achieved.*

The OGC's own report recognised that efficiency gains, improved service delivery and greater overall responsiveness led to the need for increased openness, collaboration, communication, flexible working and the breaking down of hierarchies. In order to achieve this "*greater structural agility*"

> *people, information and communication technology (ICT) and, critically, the workspace need to complement each other so that overall flexibility can be realised.*

The NAO study was based on a series of best practice case studies, to demonstrate not only how asset management could improve efficiencies (the report pointed to potential annual savings of £1.5bn to £2bn by bringing occupancy density standards into line with good practice), but also how innovative workplace management could contribute to bringing about organisational transformation.

A report from Leeds University report picked up the theme of more innovative workplace management.[22] The report set out a comprehensive approach in which property asset management is defined "*as a structured, holistic and integrating approach for aligning and managing over time service delivery requirements and the performance of property assets to meet business objectives and drivers …*". As well as anticipating £27m of annual savings from FM services and £129m-£174m from leasehold management, crucially the report also proposed annual savings of £254m-£383m from the introduction of flexible working styles.

The OGC continued to provide evidence of the transformational effects of innovative approaches to workplace management. Its *Working Beyond Walls* report provided case study material of workplace transformation within government. It painted a radical picture of the future.

> *the spatial, temporal and psychological walls have crumbled. The new order will be a vast estate of technologically-enabled distributed workstyles, driven be a heightened awareness of environmental concerns into a more sophisticated range of designs and staffed by … people with widely differing experiences and expectations of work, place and the life of work*.[23]

Measuring success

As approaches to public sector asset management matured, so the issue of measuring progress became more prominent. In 2006, the OGC introduced its *Routemap to Asset Management Excellence* as part of the High Performing Property (HPP) initiative.[24] HPP challenged government to deliver a "*a step change in performance*", promoting an approach in which public sector asset management embraced a number of basic principles.

- A clear and comprehensive approach to the integration of property asset management in strategic business delivery and resource management.
- Clearly defined and delivered asset management responsibilities, matched by skilled and capable staff and Board level representation, where appropriate.
- Use of performance measurement and management tools to deliver continuous improvement in the management and delivery of property assets.
- Maximised use and operation of an organisation's estate, including timely disposal, optimum use through the adoption of effective workspace strategies, and optimum delivery against government sustainability targets.

The *Routemap* was supported by two further documents. The first introduced the *PAM Maturity Matrix*, which defined levels of maturity and capability across the sub-disciplines of asset management.[25] The second – *Better Measurement, Better Management* – set out an approach to the measurement of efficient and effective property.[26] This document presaged the introduction of a property benchmarking service, which would allow the OGC to track progress in achieving efficiencies across the central civil estate.

In 2007, the RICS endorsed the need for new approaches to asset management in its own guidance on the subject.[27] The book stated that *"Land and buildings are probably the slowest of all strategic resources (finance, people, ICT and land and buildings) to respond to change"*, and that this had *"led to many parts of the public sector property asset base underperforming in non-financial and financial terms"*. It concluded that there was a need for change through a

> *structured and programmed approach to long-term change in the asset bases of public sector organisations, in short: 21st century, fit for purpose, land and buildings*.

More recently, the Foreword to the Flanagan Report[28] stated that

> *The role of the police service has expanded and the range of issues it manages has diversified. As public expectations have grown and policing priorities have multiplied, the service now not only takes responsibility for its 'traditional' functions, but also for many new ones, which require different skills and different ways of working"*.

Specifically, the report highlighted the need for police forces to *"focus effort on … areas for improved productivity, such as demand management … procurement and flexible working"* (recommendation eight); and *"working practices within Neighbourhood Policing to ensure flexible working options exist"* (recommendation sixteen).

In 2007, the NAO released another report which took a detailed look at the cost of office accommodation across central government.[29] The study noted that "*The exact expenditure on office accommodation for the whole of government is poorly understood*", but referred to OGC estimates that the central civil estate costs an estimated £6bn, covering some 13m sq m of floor space.

The report found that central government departments as a whole were performing 38% worse than the benchmark and "*by comparison to the private sector can achieve potential gross savings of up to £326 million per annum by improving a combination of space efficiency and cost efficiency*". As hinted by Bootle's numbers, "*The majority of the savings are likely to be generated by improving space efficiency*", rather than through cost (facilities) savings (Figure 1).

The NAO data showed that the five departments with the largest property portfolios occupied 89% of the central civil estate. If these departments brought their performance into line with private sector benchmarks they could generate potential annual gross savings of up to £248m, equal to 76% of the total potential financial savings.

Figure 1 Potential savings against private sector benchmarks

Cost element	Gross saving value (£m)
Space efficiency	237
Accommodation costs	118
Total	326

Source: NAO, 2007

In the wider public sector, progress on data management has been slower and it is clear, in 2010, that there remains a long way to go before public asset management generally is underpinned with consistent and reliable data. In 2009, the Audit Commission called on local authorities to take a more strategic approach to asset management, and it recommended that they collect data on the size, usage, occupancy levels, condition and running costs of their assets.[30] The report also alluded to the need for more sharing of real estate among public sector agencies, an initiative referred to as the *Total Place* agenda, for the delivery of more co-ordinated public services.

Recent developments and outlook

The lack of progress in addressing assets as a strategic resource in the wider public sector was reinforced in a recent report which stated that property "*makes a critical and very tangible contribution to the success of core business"* but that it "*too often fails to make it on to the top table agenda*"; going on to state that

> *as local government continues to evolve and finds new ways of working and delivering services, it is unlikely that property can remain in the shadows, if only because virtually every change programme has a property impact. Either this impact is managed as an afterthought – attempting to make the best of a difficult situation – or it can be embraced and used to shape the way that organisational transformation is delivered.* [31]

And, at the same time, official government impatience at the lack of progress within its own estate was expressed (in polite terms) in an influential Committee of Public Accounts report.[32] Some of the key conclusions are paraphrased below.

- Departments are a long way from achieving full value for money on their estates.
- Buildings are performing nearly 40% worse than the private sector benchmark.
- Departments lack key information to manage their office property effectively.
- Only 5 out of 16 departments had asset management plans.
- Departments do not have data on energy consumed for 30% of buildings.
- HPP has potential to improve value for money but requires more active participation from departments.

The desire to push on, and make significant progress was to be underlined through the Operational Efficiency Programme (OEP), launched in July 2008 by the Chief Secretary to the Treasury Yvette Cooper. This key plank in the government's drive to achieve greater efficiency savings across public spending was published to coincide with the 2009 Budget. The output from this wide-ranging review was published in April 2009.[33] The report dealt with several areas of public expenditure, devoting a whole workstream to property. This concluded, unsurprisingly, that there was significant scope for public sector property and land to be used more efficiently and effectively. The recommendations involved a new approach for improving the efficient use of property.

The report concluded that, over the next 10-year period, the potential for savings from improved efficiency could be around £20bn from property disposals, with annual savings in running costs of up to £5bn by the end of that period. It also recognised that cultural and managerial change is key to achieving a step-change in performance, and that good practice needed to be applied consistently throughout the public sector.

To achieve the new approach, the workstream recommended (1) a new central property unit to drive efficient use of property across the whole of the public sector; (2) steps to facilitate investment in property transformation; and (3) specific actions to achieve change across the wider public sector.

The workstream stated that the key areas that needed to be addressed to achieve a well managed and efficient estate across the public sector included:

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

The implications of the OEP are clear: the whole public sector will come under increasing scrutiny to ensure that it is making best use of its physical resources. The first step was taken at the end of 2009 with the establishment of the new central Property Unit within the Shareholder Executive, under the leadership of John McCready. At the time of writing, the Property Unit's precise agenda is unclear, but the recent change of government and the intense focus on public sector spending cuts is likely to encourage both deeper and more radical measures than has been the case in the recent past.

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