hot
property

getting the best from local authority assets

AUDIT COMMISSION
Promoting the best use of public money

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Preface

The way in which local authorities use and manage property assets is central to their ability to support best value service delivery. In 1988, the Audit Commission published a report and handbook on local authority property management, arguing for greater attention to the strategic and policy implications of property ownership and use (Refs. 1,2). In the 12 years since, there have been many changes: new political and managerial structures; increased delegation of property responsibilities; legislative, technological and cultural change; and a greater emphasis on information gathering and performance measurement. In response to these developments, the Commission decided to undertake a new study that would review councils' progress, explore the difficulties many continue to face, and identify ways in which these might be overcome.

Although individual authorities vary enormously in the size and nature of their asset holdings, all face the challenge of modernising service delivery and getting the best from valuable property resources. This report contains practical recommendations that will enable authorities to review, within a best value framework, both their use of property and the specialist services that they provide or procure in relation to this. The report's main messages are targeted at senior corporate and service managers, at local authority elected members, and at the property professionals who support them.

The report is based on in-depth fieldwork in ten authorities and short visits to two others [see APPENDIX 1]. Information was also drawn from a questionnaire on non-operational property completed by 120 authorities across England and Wales. This report concentrates on the study findings from a national perspective. It is complemented by an audit guide that helps local auditors to work with councils to review their performance and to identify opportunities for improvement.

The study team comprised Helen Oxtoby, Angie Smith and Vicky Dunne from the Audit Commission's Public Services Research Directorate, under the direction of Kate Flannery. An advisory group [see APPENDIX 1] provided valuable assistance and professional insight. The study has also benefited from the co-operation of the authorities visited, the Department of the Environment, Transport and the Regions (DETR); and from individuals and organisations who offered their advice and comments on earlier drafts of this report. The Commission is grateful for these contributions but, as always, responsibility for the conclusions and recommendations rests with it alone.

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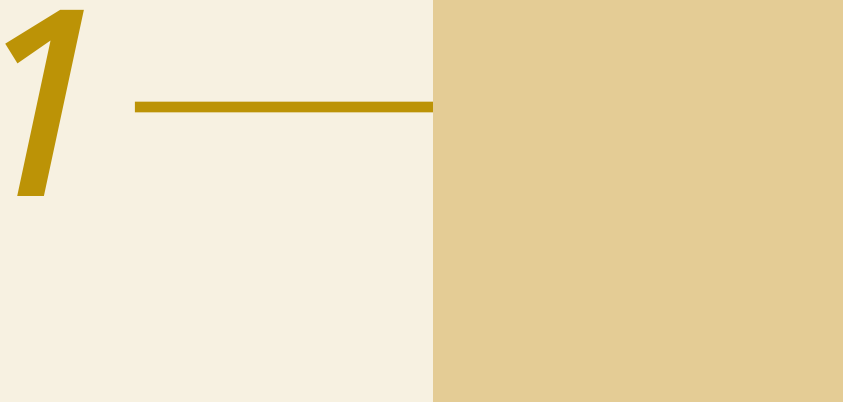
Not Just Another Brick in the Wall

Property is a valuable resource that directly impacts on the performance of a wide range of local authority services. It is also costly to run and maintain. Successful asset management requires input and effort from across the authority. But, too many authorities devote insufficient attention to the use and cost of their assets, resulting in money being wasted and, at times, substandard service delivery to users.
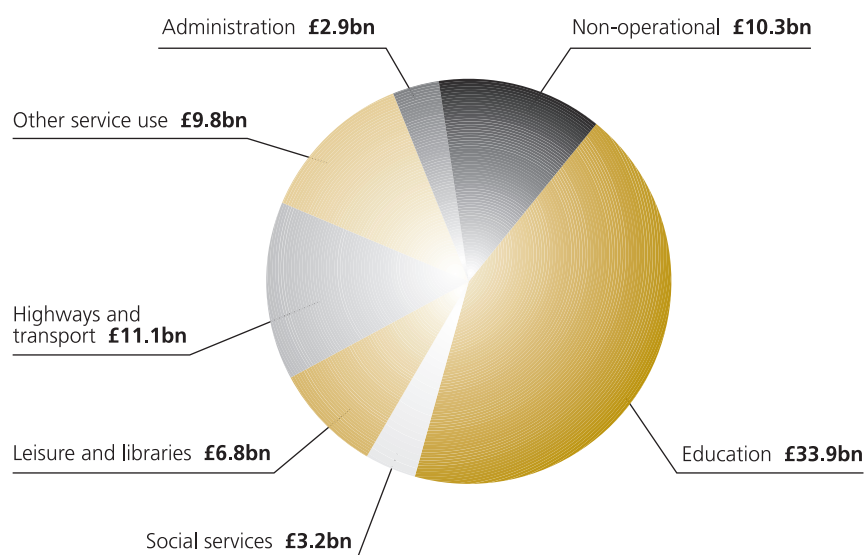
What do local authorities own – and why?

1. Local authorities are significant property owners. Councils in England and Wales have a portfolio of assets that is valued in excess of £140 billion, or £78 billion excluding council housing [EXHIBIT 1].[I] This includes three main types of property:

1. Land and buildings used to deliver a direct service to the public – for example, schools, elderly persons' homes and public parks.

2. Those that support service delivery in some way – most notably the town hall (complete with its council chamber), other local administrative offices, and vehicle depots.

3. 'Non-operational' property – that is, property which is not used for, or in support of, mainstream service delivery. This includes surplus property awaiting sale, assets under construction and around £7.5 billion of commercial and industrial property.

2. Major frontline service assets include over 21,000 schools, 3,800 libraries and 1,800 swimming pools and leisure centres [EXHIBIT 2, overleaf]. The type and quantity of property owned by an authority will depend largely upon its size and functions. County, metropolitan and unitary authorities, which provide the major services of education, social services and libraries, typically own more property than district councils. And, whereas almost all county council property is used to deliver services, one-third of district council (non-housing) property is non-operational [EXHIBIT 3, overleaf].

I   Asset value from local authority accounts. This report is about the management of land and buildings, other than council housing. The terms 'assets', 'property' and 'estate' are used interchangeably throughout.

EXHIBIT 1

Local authority property holdings

Excluding housing, local authorities own and manage property worth approximately £78 billion.

Administration **£2.9bn**
Non-operational **£10.3bn**
Other service use **£9.8bn**
Highways and transport **£11.1bn**
Leisure and libraries **£6.8bn**
Social services **£3.2bn**
Education **£33.9bn**

Source: CIPFA Local Authority Asset Statistics, 1999 (adjusted for non-returns)

EXHIBIT 2

Major frontline service properties

Councils own around 21,000 schools,* 3,800 libraries and 1,800 leisure centres.

* A further 4,400 voluntary aided schools are maintained by local authorities, but they do not own the buildings.
Source: CIPFA statistics (Ref. 3)
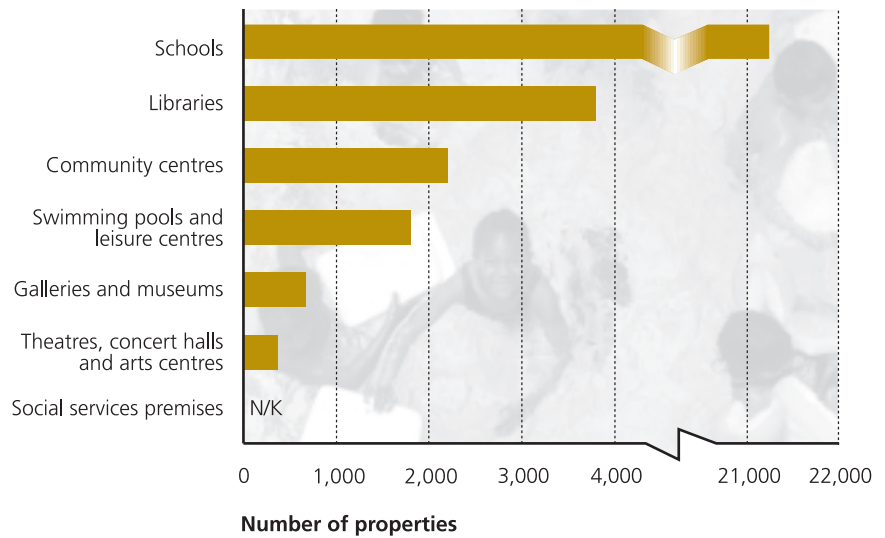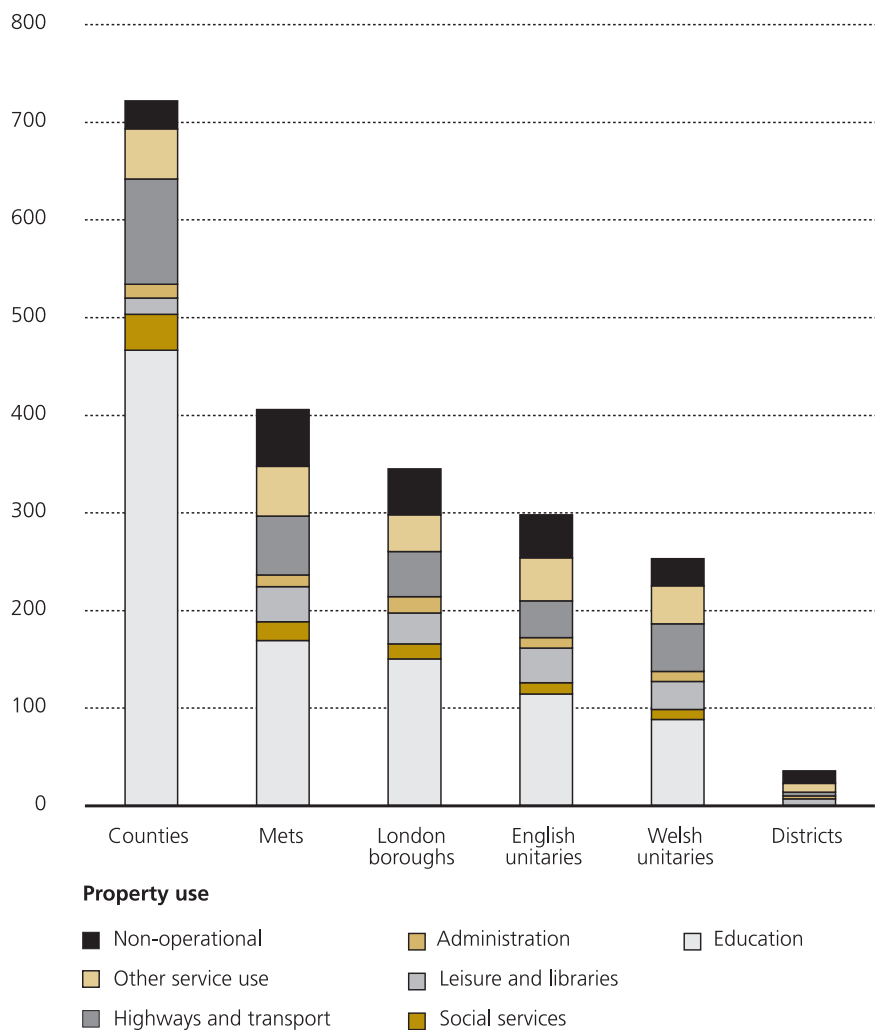

Number of properties

EXHIBIT 3

Average property values by type of authority and service use

The type and quantity of property owned by authorities depends largely upon their size and functions.

Average value of property owned (£m)

Source: CIPFA Local Authority Asset Statistics, 1999

3. Even within councils of the same type, no two property portfolios are exactly alike. Perhaps the only truly common feature is some form of administrative headquarters, although even this ranges in scale and style from the grand Victorian town hall to part of a leased office block. While it is fairly easy to predict the number and type of direct service properties that a particular council will have, the non-operational portfolio is more varied. Typical non-operational properties include high street retail outlets, markets, industrial estates and shops on housing estates, held primarily to generate income or to stimulate economic or social development. In the five study sites able to supply data, approximately 5 per cent of property holdings had been built in the period since 1980; 50 per cent before 1950 and 18 per cent before 1900. Over 95 per cent is in freehold ownership – a figure that is extremely high in comparison to norms in the private sector and in central government agencies with local bases.

Why does asset management matter?

4. Property is resource-hungry. Excluding housing, the average authority devotes 8 per cent of its annual revenue budget to running and maintaining its estate (this proportion is higher in some service areas), making property the second most costly resource after staff. There is no national source of data on property revenue costs. On the basis of information provided by the study sites, it is estimated that authorities in England and Wales spend at least £5 billion per year on property[I] – more than their total expenditure on social services for the elderly. An additional £2.6 billion of capital expenditure goes on the acquisition, construction, conversion and renovation of property.[II]

5. As with all investments, owning property has an 'opportunity cost', over and above any cash outlay in the form of day-to-day running costs or interest payments on borrowing. In simple terms, this means that retaining a property ties up investment that could be directed elsewhere. So even where the running costs of a particular property seem negligible, it is still consuming precious resources. Local authority accounts show the 'book' value of property, which broadly represents the replacement cost of assets given their current use. For most non-operational property, this book value is equivalent to market value. However, in the case of operational property, market value (which may be much higher than book value) is not usually calculated unless disposal is being considered, hence opportunity costs are not obviously apparent.

I   Estimate based on property revenue costs as a percentage of total revenue costs at five sites. Includes the cost of staff involved in property management but excludes capital charges. Includes both owned and leased accommodation.

II Source: Local Authority Capital Outturn Returns 1997/98 (England and Wales).

Too many authorities still devote insufficient attention to the use and cost of assets.

6. The Audit Commission last examined local authority property management in 1988 (Refs. 1 and 2). Although most of the recommendations from this study (see Appendix 2) are still relevant today, a revisit seems timely because too many authorities still devote insufficient attention to the use and cost of assets. Similar conclusions emerged from *Action Stations*, the Commission's study of police estate management published in 1999 (Ref. 4). This lack of attention has a detrimental effect on the quality of service authorities can provide to local communities, because they run the risk of:

- **wasting money on assets that are not required to meet service needs or are unnecessarily costly to run.** For example, significant resources are tied up in non-operational property without consideration of the return on investment, and insufficient effort is applied to minimising the amount and cost of office accommodation. Every pound swallowed up in this way is lost to frontline services;

- **not serving the public well because buildings are of poor physical quality or make services difficult to access.** For example, many schools, leisure centres and social services' homes are becoming increasingly dilapidated because authorities have not had the resources to maintain them. Failure to maintain buildings is more costly in the long run; and

- **missing opportunities to share property with other public agencies, which would increase customer convenience.** A concerted effort is required to realise these opportunities; initiatives often founder as a result of financial complications or differing priorities of partners.

7. For some time now, central Government has been exhorting public bodies to maximise the value gained from their physical assets – and many authorities have made improvements as a result. The best value regime will further question how authorities use assets *and* whether their property services represent value for money. For authorities in England, the Government also plans to introduce a 'single pot' of capital to replace existing fragmented arrangements and thereby enable authorities to use resources more flexibly. Authorities' future capital allocations will be determined by a combination of need and performance, assessed partly through asset management plans (AMPs). In England, asset management planning has been introduced by the Department for Education and Employment (DfEE) for school property, and will shortly be extended to other assets by the DETR.[1] Meanwhile, Government has set itself targets for the proportion of services that should be capable of 'electronic'

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[1]   Welsh authorities are being encouraged to develop asset management plans (AMPs), but the National Assembly for Wales has no plans to link these to capital allocations.

delivery, rising to 100 per cent by 2008.[1] The Local Government Association (LGA) is currently working with the Cabinet Office to identify appropriate targets for local authorities. As councils develop and extend electronic access to services, their property requirements are likely to reduce dramatically.

Whom – and what – does asset management involve?

8. Successful asset management requires input and effort from across the authority – it is by no means the sole preserve of property professionals. Managing a local authority property portfolio involves two broad strands of activity **[EXHIBIT 4]**, both of which are considered in this report:

- **Strategic considerations:** most importantly, what number, type and location of assets are required to deliver the authority's objectives? Answering this question is the responsibility of senior managers and elected members, supported by property specialists.

- **Property services:** authorities provide or procure a range of services to run and maintain property on a day-to-day basis, and to acquire new assets or dispose of unwanted ones as required. Such property services include both administrative and professional/technical services. Authorities vary greatly in both the organisation of these tasks and the relative priority accorded to them, but the constituent activities are reasonably consistent.

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[1] 'Electronic' is defined as by telephone, television or computer.

EXHIBIT 4

The function of asset management

Asset management includes strategic considerations as well as a range of property services.

STRATEGIC PROPERTY CONSIDERATIONS

where? why? what?

PROPERTY MANAGEMENT SERVICES

Accommodation review and space management

Property information

Contract and budget management

Energy management

PROFESSIONAL AND TECHNICAL SERVICES

Acquisitions and disposals

Valuation, rating and planning

Lease and rental management

Building maintenance
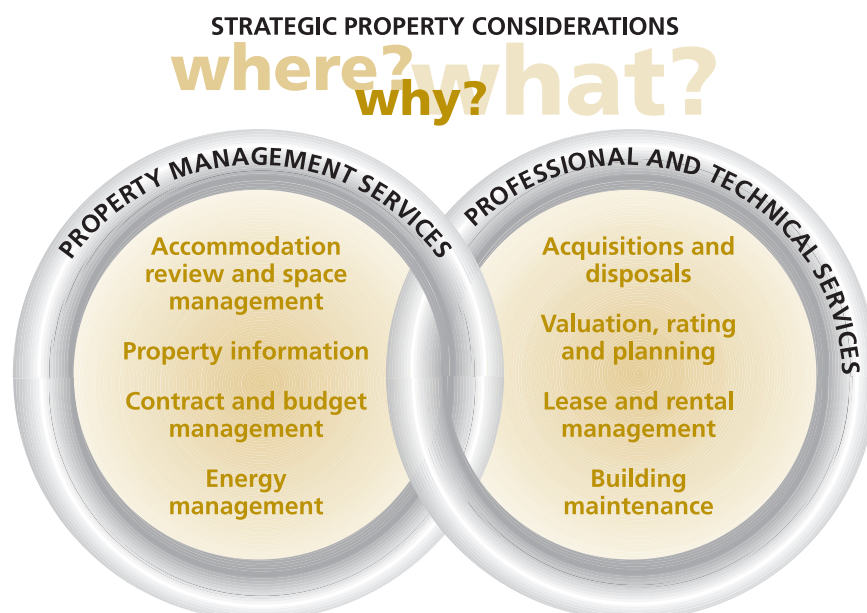
Source: Audit Commission

A building fit for the purpose, in the right location for users, can make the difference between a good and a poor service.

9. The Commission's 1988 report (Ref. 1) concluded that property was an under-managed resource and that, while technical skills were often strong, the corporate or strategic function was underdeveloped. To a lesser extent, this remains true today – as testified to by recent research carried out by consultants DTZ Pieda for the DETR (Ref. 5). The Commission's 1988 report paved the way for a number of initiatives designed to improve strategic asset management, including CIPFA's introduction of asset registers and improved capital accounting procedures in local government (Refs. 6, 7).[1] In addition, there has been a flurry of research activity, within academia and under the aegis of professional bodies such as the Royal Institution of Chartered Surveyors (RICS) (for example, Ref. 8). This research consolidates known good practice in asset management, and also raises new questions – for example, exactly how should local authority assets be valued and their performance measured? However, less attention has been paid to a more fundamental question: what shape and size of property portfolio will local authorities require in the future?

10. Much will be gained from improved asset management – and not merely in financial terms. A building fit for the purpose, in the right location for users, can make the difference between a good and a poor service. Resources will always be constrained, but technology offers new opportunities, both to increase the accessibility of services and to improve space efficiency. It is encouraging to report that there is wide acceptance among local authorities of the merits and basic principles of sound asset management, and some have taken significant strides towards this goal. This report considers what needs to happen – at local and national levels – for all councils to make the best possible use of their asset base to meet current and future needs.

[1]   More recently, central government itself has set up a national asset register and is shortly to adopt resource accounting in order to better represent the true costs of holding assets.

2

Barriers to Best Value Asset Management

Many councils fail to challenge why they own land and property or to review its effectiveness. Senior officers and elected members sometimes lack awareness of the strategic importance of property, the information required to make sensible decisions about how to use it better, or the will to put these into effect. However, external financial constraints can limit councils' flexibility to apply the most suitable long-term solutions to local needs.

Despite its significant value and impact on services, property is rarely considered other than in the context of new buildings and the capital programme.

11. Asset management is central to councils' ability to support effective service delivery. Property tends to be expensive to acquire, inflexible in use, time-consuming to manage and costly to run. As such, it *should* receive significant corporate attention. Making the best use of property assets is, however, a challenge that has proved elusive for too many local authorities because:

- property is not always treated as a strategic resource;
- some councils fail to challenge why they own land and property, or to review the way in which they organise and obtain property services;
- there is insufficient data to inform decisions about how best to manage the estate;
- poorly defined financial and managerial procedures cloud accountability for property;
- political apathy and opposition to change trap councils in the status quo; and
- external legal and financial constraints, including the short-term nature of funding, limit councils' flexibility to apply the most suitable solutions to local needs.

The following paragraphs explore each of these barriers in greater detail and outline the principles of better asset stewardship. The final chapter of the report summarises practical ways forward, citing examples of good practice already adopted by some authorities.

Failure to treat property as a strategic resource

12. At least once a year, councils consider how they will allocate and spend the resources available to them. These budget discussions involve members and officers at the highest level within the authority. But, despite its significant value and impact on services, property is rarely considered other than in the context of new buildings and the capital programme. In spite of the best efforts of many local authority property professionals, *existing* land and buildings are still primarily perceived as fixed assets of the authority – something to hold on to until they fall empty or become a liability – rather than as resource-hungry facilities that help (or hinder) delivery of services to the public. For example, the disposal of property is more likely to be driven by the Treasurer's requirements for capital receipts than by a regular appraisal of which assets are under-used or potentially surplus to requirements. Moreover, property maintenance expenditure is frequently the first casualty of short-term revenue budget pressures, even where this runs counter to prudent asset management. In general, officers interviewed during this research reported difficulties in securing a sustained interest in, or commitment to, the property resource from members.

13. Property is commonly squeezed into a short-term political framework of three to five years. But, successful asset management requires a long-term perspective, vision and leadership, and a willingness to take difficult decisions. Some members, in particular, may need to be reminded that there is more to asset management than dividing up the capital programme and cutting tape at the official opening of new civic facilities. Research suggests that asset management would be strengthened if both members and chief officers improved their awareness of the role, cost and potential of their property assets [BOX A]. Property is a resource which, alongside others such as staff and IT, needs to be *actively* managed – at both service and corporate levels. Interestingly, local authorities do not have much to learn from major private companies in this respect. Of 155 public and private sector organisations surveyed by Avis and Gibson in 1995, only 60 per cent included property explicitly in their strategic plan, and fewer than 40 per cent stated that they had specific performance measures for property. This response was consistent across both the public and private sectors (Ref. 9).

Failure to challenge

14. The previous chapter outlined what local authorities own, but the question remains: do they really *need* all this property? Also, do existing arrangements for providing and purchasing property services match up to best value principles? Reducing asset holdings is a difficult challenge for authorities, particularly where frontline service buildings are concerned, since the public and elected members tend to be attached to buildings as tangible representations of public services. What can authorities do to realise efficiency savings in this area without reducing service quality and effectiveness?

BOX A

Recent research on strategic asset management

Recent research by De Montfort University explores the relevance of 'corporate estate management' to local authorities, and the factors that may obstruct its application.

A review of existing public management literature found few references to property, suggesting that this resource has been virtually ignored in mainstream management thinking. Across the public and private sectors, there appears to be a long way to go before it is general practice for property assets to be routinely managed in a strategic fashion, as a means of 'adding value' to the organisation.

In the meantime, a significant number of councils are creating corporate, service and operational plans in the absence of adequate property information or input. A postal survey of 26 council leaders found the main reasons for a continuing non-corporate approach to property management to be:

- inadequate property information (or, possibly, poor communication of this information to members);

- protectionism towards property use, primarily due to the departmental ownership of property by service committees; and

- difficulty persuading party politicians to think objectively about property ownership and control.

Source: Elisabeth Carter, Public Property: The Lost Resource? (Ref. 10)

Formal reviews to establish whether buildings are 'fit for purpose' are rare.

Frontline service property

15. Firstly, consider the property that councils use to deliver services directly to the public. Authorities visited during this study often expressed concern about the condition of these buildings – schools, social services' homes and leisure centres in particular – but cast doubt upon their financial capacity to replace or refurbish them. But, most authorities also acknowledge that they retain and maintain buildings that are in the wrong place, of the wrong size, or are otherwise unsuitable for their current use. Some service managers expressed the view that they would be able to provide a better overall service from fewer service points. However, formal reviews to establish whether buildings are 'fit for purpose', or whether the cost of their retention is justified by demand, are rare. Often, therefore, the status quo of building configuration goes unchallenged, and councils' ability to channel resources to where they are most needed is unnecessarily constrained. Although councils' borrowing ability is limited by central government controls, they now have freedom to recycle capital receipts from asset sales.[I]

16. A recurring theme in the debate about modernising public services is 'joining up' provision and improving accessibility to the public, but the current arrangement of buildings can be a barrier to this. In a town or city with a two-tier council structure,[II] everyday public services are delivered by at least half-a-dozen different agencies (often including central government services), all with their own accommodation. To the service user this appears baffling, while for the individual agencies concerned it may represent unnecessary duplication of resources. Mapping public service property across a geographical area illustrates the potential to:

- make better use of some existing property assets – for example, schools and libraries, which have limited opening hours; and

- work towards a pattern of buildings that more closely reflects the way users want (or need) to access services [EXHIBIT 5].

Of course, there are cultural, financial and practical difficulties involved in joining up public sector services, including security concerns. However, many of these might be overcome, if the will to do so exists among partner agencies.
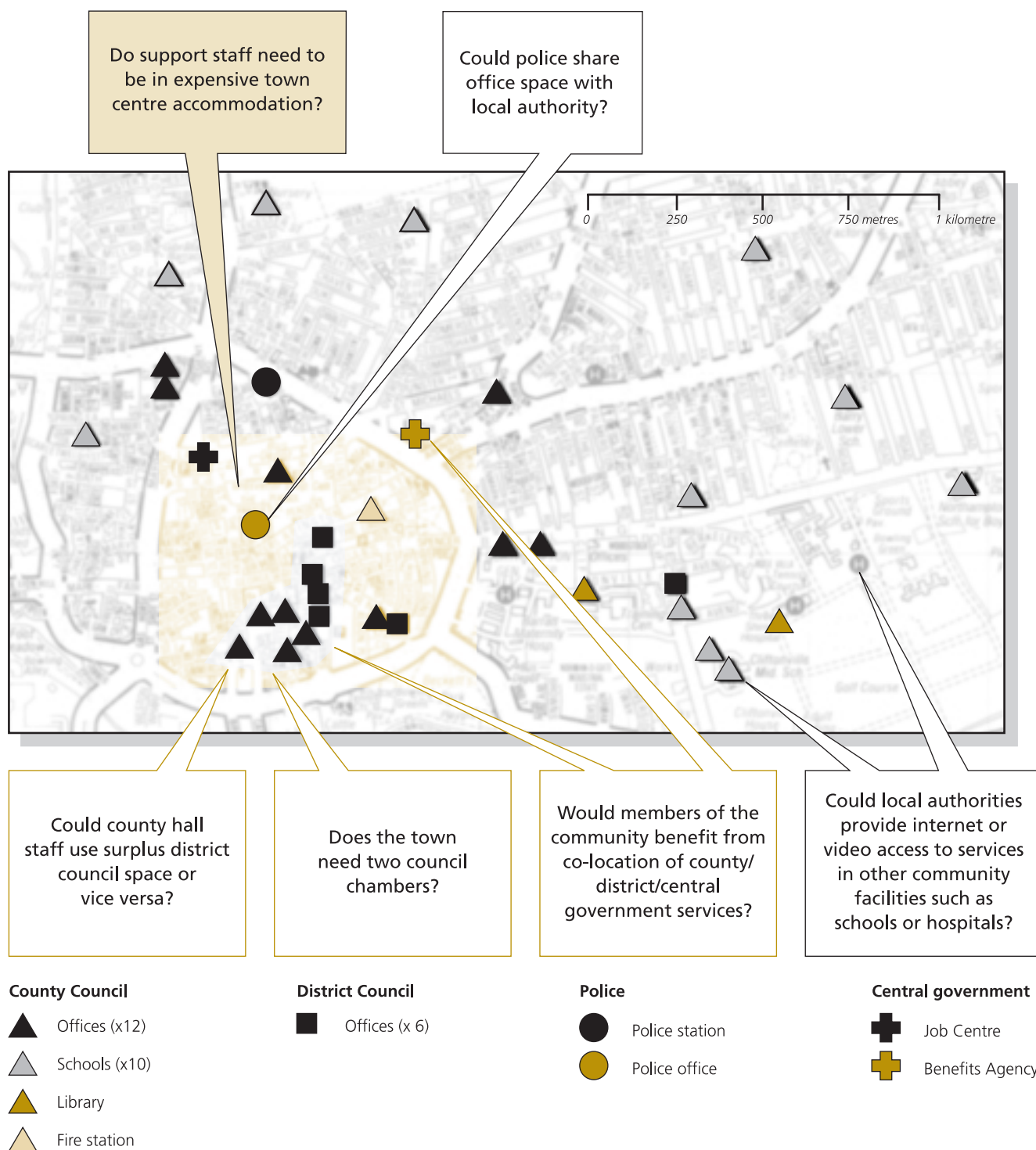

I   Prior to September 1998, authorities were required to set aside a proportion of receipts towards repayment of debt.

II   That is, one in which local authority services within an area are provided by a separate district and county council.

EXHIBIT 5

The pattern of public service delivery in a typical town centre

Opportunities to rationalise and share property between agencies are missed.

Do support staff need to be in expensive town centre accommodation?

Could police share office space with local authority?

| | 0 | 250 | 500 | 750 metres | 1 kilometre |

Could county hall staff use surplus district council space or vice versa?

Does the town need two council chambers?

Would members of the community benefit from co-location of county/district/central government services?

Could local authorities provide internet or video access to services in other community facilities such as schools or hospitals?

County Council	**District Council**	**Police**	**Central government**
▲ Offices (x12)	■ Offices (x 6)	● Police station	✚ Job Centre
△ Schools (x10)		⬤ Police office	✚ Benefits Agency
△ Library			
△ Fire station			

Source: Audit Commission, based on a real town.

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Administrative buildings

17. Councils own or lease a significant amount of office space – data from a questionnaire completed by 72 members of the Association of Chief Estate Surveyors (ACES) shows an average floor area of 35,000 square metres for a county, 22,000 for metropolitan councils and 5,000 square metres for the average district council. Administrative property is an expensive overhead, so accommodation for 'back office' functions is an obvious target for savings. The Commission analysed the use of space in seven local authority headquarters buildings. Although some staff in these buildings experience cramped conditions, overall, spare capacity averaged 13 per cent [BOX B]. Spare capacity of 5 to 8 per cent is generally held to be sufficient to allow flexibility, suggesting that there is considerable scope for authorities to make existing space go further and thus release surplus capacity for alternative use or sale. As an indication, if every authority reduced their office space by just 5 per cent, national savings of approximately £25 million would result.[1] Even simple economies, such as more efficient arrangements for filing and storage, are often overlooked. Authorities need to set sensible targets for space reduction at departmental level and put in place processes that will enable these savings to be realised.

18. The greater challenge, however, is to reduce permanently the total cost of accommodating staff. In order to achieve this, local government must challenge its need to provide a desk for every employee, in a building owned by the authority. Many town halls were built as symbols of civic grandeur and the design of some older buildings (for example, those with many cellular offices that are costly to convert to open-plan) can make them more difficult to use efficiently. But evidence from Audit Commission fieldwork and space audits suggests that even modern local authority office and 'ceremonial' accommodation has sometimes been built to relatively generous space standards. Of course, cost is not the only consideration, but councils should consider whether this expense is justified and examine the configuration of office accommodation across the authority. Do all support functions need to be located where they are at present? Could some be located on lower-cost sites away from the town or city centre, if environmental and economic considerations permit? In summary, thorough option appraisal is required to ensure that the financial and service consequences of political decisions are transparent. For example, many authorities are wedded to ownership of property, although leasing can offer greater flexibility in response to changes in office needs (and may prove cheaper when the opportunity costs of capital are considered).

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[1] Estimate based on average floor areas by authority type (from ACES questionnaire) and an average running cost per square metre of £85.

Space utilisation in local authority office accommodation

A space utilisation study of seven local authority administration buildings carried out for the Commission highlighted a range of savings that could be made:

Efficiency measure	Results for 7 buildings Average	Range	Cross-sector benchmark
Gross floor area per person	26m^2	16–35m^2	10–15m^2
Percentage spare capacity	13%	7–16%	5–8%
• of which physically spare	3%	1–8%	—
• of which time spare	10%	6–13%	—
Percentage non-usable space	31%	16–39%	25%
Percentage storage space	12%	7–18%	15%

Space per person averaged 26 square metres (m^2), compared with a typical average density for administrative buildings of 10-15m^2.

Spare capacity was measured in terms of both unused space – ie, 'physical' spare capacity – and space used for only part of the working day or week – ie, 'time' spare capacity. Total spare capacity ranged from 7–16 per cent, compared with an optimum spare capacity (to allow for flexibility in use) of 5–8 per cent. Overall, most spare capacity was created by under-utilisation of workstations, because staff who spent most of their time out of the office were nonetheless allocated a dedicated office space. Across the seven buildings, a total of 105 workstations were not in use on the day the review took place.

Building planning efficiency was notably poor in all but the one open-plan building. The amount of non-usable space (ie, corridors, stairs, lifts, lobbies and plant areas) in the other six buildings ranged between 28–39 per cent, compared with a typical average in administrative buildings of 25 per cent. This is partly explained by the relative grandeur of many civic centres and town halls with their wide staircases and roomy lobbies.

Storage space was generally below the recommended allowance of 15 per cent. There was no common standard for fitting out storerooms on any of the sites, and in some instances prime office space was being used for storage.

The management of the building space and facilities varied considerably between authorities. Those with a co-ordinated approach had analysed working patterns and set workstation reduction targets. In others, space allocation was inequitable – some teams worked in cramped conditions while senior staff occupied individual offices larger than those of comparable professions. The largest chief executive's office was 52m^2 in size, while the average size of a director's office was 33m^2. This compares with an average of 20m^2 for a civil service grade 5, and 16m^2 for a hospital consultant.

Source: Audit Commission and Oakleaf Facilities

Many councils have yet to exploit opportunities to make savings through the introduction of flexible working arrangements.

19. Technology to permit office-based staff to work from home or other locations is now widely used, thus relieving the need for all members of staff to have their own desk. Many councils already have some staff who 'hot desk', but others have yet to exploit opportunities to make savings through the introduction of flexible working arrangements. Hot desking is not suitable for everyone, but can be applicable for individuals who spend much of their time out of the office. In the local authority context, this includes social workers, building surveyors, education welfare officers and advisers, inspectors and internal audit staff. In addition to rethinking management practice, such arrangements require upfront investment in information and communications technology. But, in some cases, technology would have needed upgrading in any case.

20. Perhaps a more difficult barrier to overcome is the unpopularity of hot desking with staff. Most employees prefer to have their own workspace, but hot desking is a reality in many businesses and can have benefits for staff when linked to the freedom to work from home, reduced commuting, flexible hours, etc. Recent research carried out for the Health and Safety Executive (Ref. 11) found that hot-desking employees did not experience any greater levels of stress than other staff. The introduction of new working practices could, in fact, lead organisations to give greater attention to work-related stress because established ways of thinking were challenged. Experience from authorities that are introducing flexible working across all relevant departments indicates that office space could be reduced by up to one-quarter. One county council predicts annual revenue savings of £1.75 million – equivalent to 140,000 home care hours or 1,500 new computers. Smaller councils, which do not have the scope for savings of this magnitude, should, nevertheless, review the costs and benefits of introducing flexible working arrangements in appropriate areas.

Non-operational property

21. Not all of the property owned by local authorities is used to provide services. Property with a market value of £10.3 billion – representing 11 per cent of the portfolio – is classified in the accounts as 'non-operational'. (In some district councils as much as two-thirds of property, by value, is non-operational.) Of this total, an estimated £2 billion is under construction and £700 million is surplus and awaiting, or being prepared for, sale.[1] The remainder consists broadly of:

* commercial or industrial properties, held to generate income and/or support economic or social development; or

* vacant land held in advance of future developments or as an investment.

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[1]   Estimated from CIPFA statistics and Audit Commission survey.

This portfolio has been described by one practitioner as 'a rag bag of properties acquired over many moons for a variety of purposes' (Ref. 12). Its chief components are retail and industrial units for let, but other holdings include harbours, racecourses and windmills. Some of this property was acquired to meet past council responsibilities, for example, post-war urban redevelopment, and has been retained despite its decreasing relevance to the functions of a modern local authority. Other elements have no obvious relationship at all to current service priorities. So, do non-operational assets justify their keep?

22. Commercial property for rent is a significant income generator; the average annual gross rental income is £4 million for a London borough, around £5 million for a metropolitan authority, and £2 million for a district council [EXHIBIT 6]. But, worryingly, very few authorities know the net income of these holdings. The cost of managing several hundred properties (the typical district owns 250 non-operational sites, while the average number in metropolitan authorities is over 1,000) is considerable. Yet authorities currently focus more on the cash benefits of retaining property than the costs – rates of return are rarely calculated and only 40 per cent of authorities have undertaken a cost-benefit analysis of their commercial portfolio in the last year [EXHIBIT 7, overleaf]. While 60 per cent of councils responding to the Commission's survey could provide a figure for total administration costs, fewer than 20 per cent recorded other costs, such as repairs and maintenance. Unless both management and opportunity costs are fully taken into account, councils will be unable to sustain a logical argument to retain these properties. Even where commercial or industrial property makes a reasonable return on investment, it may be preferable to sell assets, if the market permits, and redirect capital towards frontline services.

EXHIBIT 6

Gross rental income from non-operational property

The average metropolitan authority earns around £5 million per year from its non-operational portfolio.
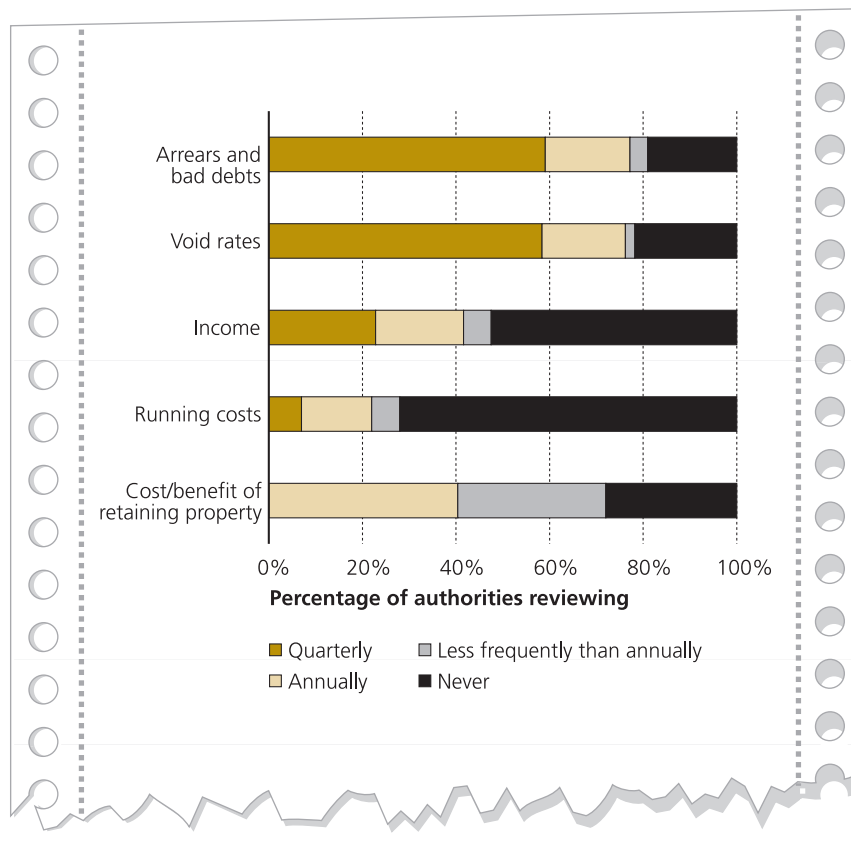
Gross rental income (£m)
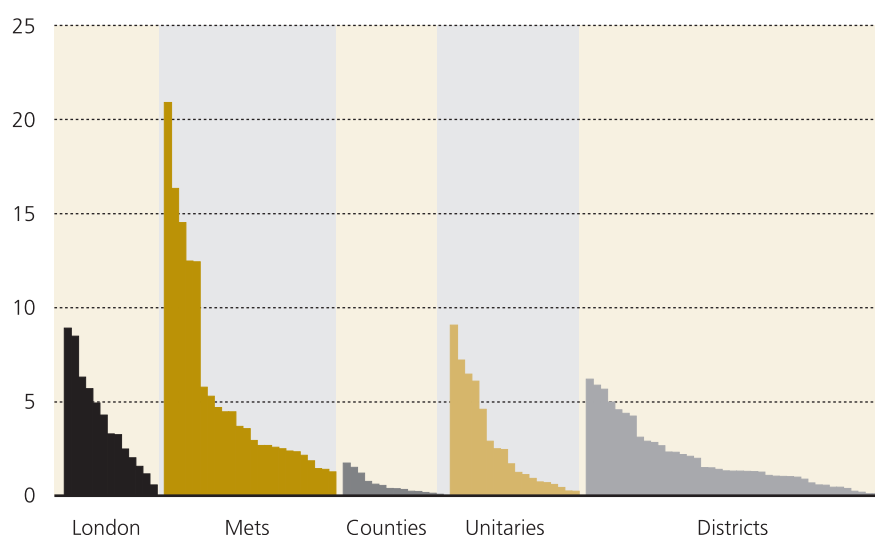
Source: Audit Commission survey of 120 authorities

EXHIBIT 7

Monitoring and reviewing the performance of non-operational property

Authorities concentrate on voids and rent arrears, rather than return on investment.

Arrears and bad debts

Void rates

Income

Running costs

Cost/benefit of retaining property

0%   20%   40%   60%   80%   100%

Percentage of authorities reviewing

■ Quarterly   ■ Less frequently than annually
■ Annually   ■ Never

Source: Audit Commission survey of 120 authorities

23. Of course, non-operational property is often held for reasons other than income generation. This applies, in particular, to areas blighted by economic decline where councils are providing industrial units or acquiring land in order to bring in much-needed inward investment and jobs, or to ownership of shops on deprived housing estates. In these situations, authorities must challenge whether property ownership is the only, or the best, way of achieving identified objectives. The Commission's recent report, *A Life's Work* (Ref. 13), outlines the role of local authority premises in achieving economic regeneration in areas where the private sector is not active. But it also stresses the importance of monitoring outcomes. For example, do small businesses stay in the area? How many lasting jobs are created? County and unitary councils own over 5,000 tenanted farms, covering an area the size of Greater Manchester, and with a market value of around £400 million.[I] Farms sometimes form part of the 'green belt', but councils should question their continued need to own these assets, especially where their original objective of providing opportunities to young farmers is not being met, or is no longer a council priority.[II]

I   Although farms are categorised as 'operational' property for accounting purposes, the issues involved in their management are more akin to tenanted non-operational property.

II Historically, lifetime tenancy arrangements have meant there has been little turnover of tenants. Recent legislation ended these agreements, but this change will take many years to have an effect.

Some internal clients see property services as insufficiently responsive to their needs and representing poor value for money.

24. Nationally, some 12 per cent of non-operational sites are vacant plots of land – either surplus, or held for 'future development' or 'investment purposes'.[I] However, questions of how likely subsequent development is to occur, or to what extent such sites represent a *good* investment of public money, are not always addressed. 'Landbanking' for strategic purposes (for example, acquiring land for planned future development when the market is favourable) can represent good practice, but only if the continued need to hold the sites is regularly reviewed. One fieldwork authority had retained a site for 20 years in anticipation of a new primary school, but falling pupil numbers in the area make it unlikely that the school will ever be built.

Property services

25. Frontline service managers rely on professional and technical support to help them manage the property element of their services. But, some internal clients see property services – whether professional advice or work done by contractors – as insufficiently responsive to their needs and representing poor value for money. Of the ten study sites visited, four had no formal performance targets for property services, two had no statement of services provided (service level agreement or similar) and five made no attempt to compare their services against other authorities. Only one authority involved frontline service departments in the specification of property service contracts – for example, standard and frequency of cleaning or response times for repair work **[EXHIBIT 8, overleaf].** The vast majority of professional and administrative property services are provided in-house: local authority property departments tend to argue that the private sector would not perform any better, but the onus is now on them to demonstrate that they can deliver best value in terms of both cost and quality. Councils should also question whether it is cost-effective to provide all specialist services in-house. Finally, the fact that internal clients 'choose' the council's services is not, on its own, evidence of best value – in responses from over 3,000 schools in 35 authorities inspected by Ofsted and the Audit Commission, LEA property services receive an average satisfaction rating of between 'adequate' and 'poor'.

I   Audit Commission survey of 120 local authorities.

Are property services ready for best value?

Without action, many authorities' property services will fail the tests of best value.

Of 10 fieldwork sites:

challenge
Recent review of structure and need for internal property services

compare
Benchmark property service activity and costs:
a) with other local authorities
b) with non-LA services

consult
Measure and respond to customer satisfaction levels

Client involvement in service specifications

compete
Market-test property services

Source: Audit Commission fieldwork

Insufficient data to support management decisions

26. The advent of AMPs and the implementation of best value should raise the corporate profile of property and encourage authorities to adopt a more strategic and challenging approach. However, a major barrier to better use of assets remains the lack, or poor accessibility, of information on which to base decisions. Over the past decade, considerable progress has been made in recording and valuing assets, but everyday management information is still extremely scarce. None of the ten study sites was able to provide authority-wide details of how much each of their buildings cost to run, or how (well) the space within each building was being used. Without such information, authorities are unable to assess whether the retention of particular properties is justified by the benefits to service

Gathering and maintaining property management information tends not to have a high corporate priority.

users; or whether there are cheaper or more effective ways of providing a service – perhaps locating staff in other agencies' buildings or investing in technology to release space.

27. Why is basic management information still not available? In part, the fault lies with authorities' financial systems, which have not always been designed with the needs of service managers in mind. For example, a typical local authority financial database can identify how much was spent in total on cleaning materials or cleaning contractors, but will not record the total cost of cleaning each individual building (because not all sites are identified as a separate cost centre). It can show how much was paid to a specified maintenance contractor, but not the total cost of repair work carried out on facilities of a particular type over the past three years. Credit is due to council property managers, who have argued long and hard for greater investment in property information systems. Many councils have already acquired improved databases and are undertaking the onerous task of gathering and inputting data.

28. Gathering and maintaining property management information tends not to have a high corporate priority. However, authorities will need to enhance their efforts in this area in order to meet best value and AMP requirements. Until now, a barrier to individual authorities investing in this area has been the absence of a common approach to data definition and collection – for example, should floor area be measured in net or gross terms, and how exactly should property costs be categorised? The DETR has been holding discussions with local authority property professionals and other interested parties, but further work is required. AMP guidance provided by the DfEE in relation to schools set out detailed measurement guidelines and was accompanied by grant funding to kick-start councils' efforts. Local authority property professionals have indicated that they would welcome a similar approach from the DETR.

29. Of course, it is crucial that the collection of data does not become an end in itself. Therefore, information systems should:

- be 'owned' and easily used by frontline service managers and the corporate centre, regardless of where the database is located and managed;

- include only information that is directly relevant to particular service and/or corporate objectives (including cost, condition, suitability and occupancy levels);

- be linked to other existing or planned databases, including the property 'terrier', so that relevant information updates automatically; and

- be capable of comparison both within and outside the authority.

This does not necessarily require vastly complicated software. And authorities that have yet to acquire property management information systems can benefit from the experience of those that have.

Financial and managerial procedures that cloud accountability

30. One of the key reasons why asset management is such a challenge for authorities is that property is a resource used to deliver particular services, but looking after it requires specialist (hence, for economy's sake, central) expertise. Commonly, therefore, service managers within each department have day-to-day responsibility for property, but draw on support and services from one or more property departments. Problems arise in two areas:

- where financial responsibility is not devolved to align with operational responsibility; and

- where the individuals responsible for procuring services – for example, cleaning, energy or repairs – have insufficient expertise or access to economies of scale.

31. If budgets for property are not delegated on a logical template, individual cost centre managers may find themselves holding budgets for expenses that they cannot control, at the same time as they are held accountable for outcomes that they do not have the resources to improve. Dispersed financial responsibility also restricts the ability of any one budget-holder to make sensible trade-offs between cost heads. For example, if the manager of a children's home has the budget for equipment but not running costs, he or she has little incentive to purchase energy-efficient light bulbs, which are more expensive, in order to make long-term savings on electricity bills. Similarly, if a manager must pay for preventive maintenance, but not replacement works, out of her own budget, where is the incentive to keep the property in good repair? Such scenarios commonly result in staff frustration and money being wasted on short-term measures that do not tackle the real problem [EXHIBIT 9].

32. While delegation of budgets strengthens the accountability of property occupiers and gives them an incentive to economise on property needs and costs, devolving responsibility for *procurement* of services is likely to be detrimental to overall value for money and/or corporate policies in areas such as environmental sustainability. A balance needs to be struck. Property professionals have the expertise to manage and procure services efficiently and economically, but they must be responsive to the needs of client departments. While most budgets (and hence costs) are best monitored locally, authorities must put in place a 'safety net' of procedures and incentives that will maximise overall value for money and make sure that appropriate technical standards and specifications are met.[1] This could include, for example, a requirement for budget-holders to consult with the central property department before certain work is carried out.

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[1] In relation to school repairs and maintenance, LEAs are statutorily required to delegate all revenue and some capital expenditure. Many authorities argue that this undermines their ability to take a planned and strategic approach to building maintenance.

Whose job is property?

Financial and managerial responsibilities are often split, thus obscuring accountability.

This elderly persons' home is in a poor state of repair, so that the roof leaks, the windows rattle and the building is costly to run. Residents and relatives are unhappy.

Manager's delegated budget

• Staff
• Utility bills
• Furniture and equipment
• Emergency repairs

Property department budget (authority-wide)

• Painting and decorating
• Major maintenance (eg, roofing, boiler replacement)

The manager of the home does not control the budget for replacing the roof or windows, but must pay for repeated temporary repairs until money becomes available from the central property budget (which has suffered cutbacks in recent years and is also poorly targeted due to lack of information about relative need across the authority).

Source: Audit Commission fieldwork

33. 'Ownership' of property by individual committees has been cited as a major barrier to effective asset management. Certainly, operational departments should be held to account for the utilisation of property which is a corporate resource. A dilemma exists: the centre must retain the power to switch property resources between departments and priorities, but without relieving departments of the primary responsibility for asset management. Authorities need to establish a trade-off that provides incentives for service departments to use property well – or surrender it – and to spend money wisely. For example, some authorities allow departments to retain some of the savings from property revenue

Decisions to close buildings or change their use are too often ducked.

budgets that are unspent at the year end. Councils without such incentives, and without a strong corporate culture, tend to find that departmental fiefdoms restrict their room for manoeuvre. At the very least, departments must be encouraged in some way to identify and offer up surplus property to a central pot. An Audit Commission survey revealed that almost one in ten authorities still allow individual service departments to hold on to and manage their own surplus property.

34. The way in which property departments operate and are structured can sometimes be a barrier to improving asset management. Accountability may be obscured by the existence of separate property and/or procurement departments: or, quite simply, by the absence of basic systems and procedures. Property departments need to act as 'intelligent clients' when procuring services on behalf of the organisation; and should support, not control, the needs of internal client departments. This role is often underdeveloped at present. Similarly, service managers should accept their responsibility to secure value for money from the budgets they control and manage. So, for example, the central property department must have some mechanism for ensuring that the quality of property repair work (because it has let the contract and will arrange payment of the contractor) was satisfactory to the ultimate client – ie, the individual service manager. In response to these difficulties, an increasing number of authorities are adopting a 'facilities management' approach, whereby property and other workplace services are provided from a single department, enabling a clearer focus on supporting frontline services.

Political parochialism and opposition to change

35. For many managers, the greatest obstacle to better asset management (and thereby better services) is not lack of information or strategy, but public and political opposition to change of use or closure. Because the public values buildings as a physical representation of services, it is understandable that local councillors feel pressure to resist changes in their area. Problems arise because:

• councillors' primary accountability is to the geographical area that elected them, rather than to the authority's residents as a whole;

• the political system encourages short-term thinking about services and funding options; and

• members are not always presented with the information that would allow them to integrate property with other planning cycles or are not engaged by property issues (which they perceive as low profile).

Hence, decisions to close buildings or change their use are too often ducked, even where it can be demonstrated that overall service quality would improve as a result.

36. One way forward is to inform and involve service users. Indeed, best value now requires authorities to consult users as one way to improve service delivery. Few authorities currently ask the public about their satisfaction with the location and physical quality of buildings, or whether they would prefer to access services in a different way (for example, by telephone or the internet). Buildings are 'defended' simply on the grounds that service users would rather have a poor quality building (and service) than no building at all. But, perhaps users of a dilapidated leisure centre, for example, would be more willing to travel to a more modern facility in the neighbouring town if better public transport was available. Local authorities should not be afraid to work up radical solutions and to put detailed options to residents. Political structure can also help or hinder good asset management. The weakness of traditional committee arrangements has been a spur to the new political management structures which attach political responsibility to themes or groups of related services.[1] Such approaches may, in theory, break down departmental barriers and help to ensure that property is actively considered in resource decisions – but it is too early to tell.

Legal and financial constraints

37. Some of the major barriers to the better use of assets are not of authorities' own making. Councils work within a legal framework that can sometimes hinder effective asset management as much as it helps. And they face increasing demands – for example, requirements to improve disabled access and to raise care home standards. In addition, authorities do not have the comfort of being able to make long-term financial plans, or the freedom to raise their own money to finance investment [BOX C, overleaf]. Capital controls were introduced to safeguard public money in the long term, but there is a growing case for some relaxation of these controls to allow authorities to respond appropriately to identified needs and to encourage better asset management. Moreover, some authorities report that they are discouraged from sharing property with other agencies by lack of guidance on the proper legal and accounting arrangements for these situations.

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1 Under the Local Government Bill, currently passing through Parliament, councils will be required to replace the traditional committee system with one of three options. So far, the majority are pursuing the option of a Cabinet with leader, rather than either of the options involving a directly-elected mayor.

Sample of legal and financial barriers affecting use of property by local authorities

Property acquisition

Despite the significant value of their estates, authorities can only borrow money to finance expansion or improvement within credit limits issued by central government, or through a scheme approved under the Private Finance Initiative (PFI).

Property disposal

Some property disposals require permission from the Secretary of State under Section 123 of the Local Government Act 1972 (where a property is sold for 'a consideration less than the best that can reasonably be obtained'). This can be a time-consuming process which some authorities argue hampers deals with property developers.

Restrictions on use

Many authorities have inherited land or buildings that have conditions on their use attached by the original owner. For example, subsequent owners may have to use the property for 'educational purposes'. Councils are also significant owners of listed buildings which are legally protected from development or alterations that would diminish their historic value. As with any landowner, local authorities face some restrictions on their property use as a result of local planning policy and development control.

Health and safety

Regulations directly affecting property include specifications for the minimum space allocation per person (11 cubic metres), lighting quality and the number of restrooms.

Source: Audit Commission

38. At present, local authorities can fund the refurbishment or acquisition of property from a number of sources, including:

- their own revenue budgets (within capping limits);
- capital receipts from asset sales;
- borrowing, within approval limits set by government;
- PFI or other public-private partnership arrangements; and
- bids for competitive capital funds – for example, the Lottery or European funds.

The declining availability of borrowing approvals (until very recently) and the relaxation of controls on the use of capital receipts[1] mean that councils are increasingly reliant on the rationalisation of existing assets or one-off bids to ad hoc competitive funds (for example, the Lottery) to support their investment plans. This is not necessarily a bad thing; some councils needed an incentive to dispose of surplus or under-used assets, and competitive funds are visibly helping councils to modernise services. In 1998/99 – a year during which restrictions on the use of capital receipts were lifted – receipts from the sale of non-housing assets totalled £980 million.

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[1] Non-housing receipts are no longer subject to the requirement to set aside a proportion to repay debt.

The capacity to realise capital receipts is uneven across authorities.

39. However, tensions are emerging. Competitive funding is not the panacea it sometimes appears and, at worst, can simply defer problems. Such short-term funding seems to be designed primarily to deliver 'flagship' assets, rather than tailored solutions to local needs. Moreover, it does not have revenue funding attached, so authorities must ensure that they can meet long-term running cost liabilities. Although PFI may release significant new funds for investment and bring in private sector expertise, its long-term benefits remain unproven, and schemes can be costly and time-consuming to set up.

40. The capacity to realise capital receipts is uneven across authorities. District councils are relatively well positioned, since they can sell non-operational property (albeit with some reduction in income) in order to fund improvements to their relatively small portfolio of service properties. Many district councils are also obtaining a net capital receipt from the transfer of their housing stock to a registered social landlord.[I] Moreover, ownership of districts' principal operational assets – arts and leisure facilities – is increasingly being transferred to external trusts, grant-aided by the council, which have the benefit of not being liable for business rates. Conversely, county councils have little non-service property to sell (arguably with the exception of county farms) but are responsible for two of the service areas generally agreed to be most in need of capital investment – education and social services. Central government needs to be mindful of the relative need of different types of authority when devising new schemes of capital allocation.

41. In England, the Government is encouraging authorities to strengthen their arrangements for asset management planning in tandem with the introduction of a new method of allocating capital resources. Local authorities have recently been consulted on proposals for the single capital pot, including the content of AMPs **[APPENDIX 3]**.[II] However, because only 5 per cent of borrowing approvals will be allocated through this mechanism at first (and authorities will still be able to access other 'pots' of funding such as European grants or public-private partnerships) it is possible that not all councils will invest the necessary time and effort in AMPs. Over a longer timescale, the Government intends to review the entire funding system – both capital and revenue. Eventually, capital controls may be considerably reduced. There are strong arguments in favour of reviewing revenue and capital together, since current distinctions often appear artificial and can create perverse incentives – for example, councils argue that the requirement to treat building leases over ten years in length as capital, hence using up borrowing approvals, acts as a disincentive to lease, rather than buy, property.

I Recently, some metropolitan and unitary authorities have transferred *parts* of their poorer stock at a negative valuation. However, whole stock transfers by district councils have typically generated a net receipt of £9,000 per unit (Ref. 14).

II In Wales, the National Assembly plans to retain capital allocations based entirely on needs-based formulae, but authorities are encouraged to have asset management plans in place.

Conclusion

42. As long as property assets do not receive the high-level scrutiny that they merit, their potential to support service improvement will remain under-exploited. Some local authorities have taken significant strides towards better asset management since the Commission's last report 12 years ago (Ref.1), but much remains to be done. The argument for accelerating the pace of change rests on:

- rising expectations of service quality, in particular, growing pressures on education and social services;

- the pressing need for authorities to demonstrate best value, or face intervention;

- public demand for services that are 'joined up' and easier to access; and

- the promise of greater access to capital resources if they can demonstrate a sound approach to asset management planning.

Local authority officers, elected members and central government all have a role to play in improving asset management, and there is much that can be done immediately. As the final chapter of this report demonstrates, those authorities that have so far devoted relatively little attention to their property can learn much from the experience of others.

3

What Needs to be Done?

The use of property resources and the identification of alternative options should be standard considerations in every best value service review. Although capital resources are limited, there is scope to enhance service accessibility and to keep down property costs through sharing accommodation with other agencies and making better use of technology. In addition, the standard of property services needs to rise to meet the tests of best value.

43. The issues raised in the previous chapter will make familiar reading for local authority managers. In fact, property embodies many of the problems and opportunities associated with resource management generally. Most councils welcome the introduction of asset management planning, but plans alone are not sufficient to guarantee better performance. In addition, councils need to:

- **Raise the profile of asset management.** Authorities should introduce property into resource decisions at all levels of the organisation.

- **Review holdings.** Councils must challenge their need to retain property and be more ruthless in disposing of 'assets' that do not meet objectives.

- **Search for innovative ways of providing services.** Authorities must sharpen the focus on property as a means of getting services to users as opposed to ownership being an end in itself. More radical authorities are beginning to ask themselves whether property needs to be owned at all.

- **Improve basic management procedures and property services.** Financial and managerial procedures should clarify, not obscure, accountability for assets. Property services departments must improve their performance to demonstrate best value.

In parallel with local authorities' efforts, Government needs to:

- **Actively support the development of AMPs and continue work to review capital funding arrangements.** A small number of national performance indicators are required to ensure that asset management receives appropriate attention.

Raising the profile – property is everyone's business

44. To get the best from property, chief officers and senior members must demonstrate that this is an important goal for the authority. They should promote the concept that property is a resource that requires active consideration, not a 'given' or an afterthought. The DfEE and DETR asset management planning initiatives, together with best value, provide a powerful stimulus. But to maximise impact, asset management must be made relevant to service managers and service processes – it should not simply be another central imposition or finance-driven initiative. As always, there is a balance to be struck between central control and local discretion – the corporate role in asset management should be enabling as well as regulatory. What steps are required to achieve this?

45. The Commission's 1988 report (Ref. 1) recommended that a property committee or equivalent body be set up to determine strategy. To some extent, this has been overtaken by the adoption of new political structures based on executive and scrutiny committees. Moreover, some councils that took this route found that a dedicated property committee did not have sufficient 'clout', or led to property being considered in isolation from other resource management decisions. Instead, councils should ensure that property responsibilities are clearly identified at both officer and member levels, and that property is automatically a 'cabinet issue' in the same way as other resources, notably finance and IT. This should

Councils should ensure that property responsibilities are clearly identified... and that property is automatically a 'cabinet issue'.

ensure that property is taken into account at the appropriate stage in decision-making processes and make it easier to identify and achieve trade-offs – for example, investing in IT to allow more efficient use of existing space, rather than acquiring a new building. As councils reform their political structures, it would be opportune to remind members of the value of property resources and the importance of integrating them into decision-making.

46. Sustained improvement in the 'value added' by property resources will only be achieved if improvement becomes an objective of all property occupiers and users. An authority's AMP should form part of its wider corporate planning framework. Within this co-ordinated framework, service managers must be encouraged to articulate their property needs, to develop imaginative ideas, and to set themselves targets to reduce space usage and cost. Property specialists have a key role to play in this process, advising the executive on overall corporate policies and goals. An effective way to kick-start such a process is to give members and senior managers a basic grounding in property issues. Sunderland City Council's property department ran a series of seminars for service departments, explaining key asset management issues and outlining the services provided by the specialist property function. Birmingham has provided case study examples for service managers, illustrating the opportunity costs of holding on to unnecessary or under-utilised property; the Council has also operated service property strategies for several years [**CASE STUDY 1**].

CASE STUDY 1

Asset management planning at corporate and service levels – Birmingham City Council

Since 1994, chief officers in Birmingham City Council have been required to prepare annual Property Action Plans (PAPs) for their service area. The central Property Section provides guidelines on what issues should be covered and a framework for service property reviews, while the implementation of PAPs is overseen by a Property Rationalisation Forum consisting of both members and officers. The plans form part of chief officers' performance contracts.

Service-based property review is supplemented every two years with a cross-service, ward-based, review of land and buildings. These reviews, the results of which are reported to ward members, aim to identify opportunities for rationalisation and sharing buildings between departments, as well as ensuring that assets are brought into use at the earliest opportunity. Early reviews identified 216 buildings and 316 acres of land that were void or under-utilised; this has subsequently been reduced to 16 buildings and 4 acres of land. Reviews also found valuable buildings being used solely for storage that have since been brought into more beneficial use.

cont./

For 1999/2000, service PAPs have been renamed Asset Management Plans (AMPs). Their scope includes all office accommodation used by the department, service delivery property and vacant land or buildings held for future needs. In partnership with central property departments, service departments are asked to consider the condition, sufficiency and suitability of their property, and to develop service-specific performance indicators where possible. Key information from service AMPs will be brought together in the council's overarching AMP submitted to the DETR.

Centrally, the council has invested £1 million over five years in an integrated property management database. The new geographic information system (GIS) enables property information to be integrated with other databases (for example, running costs from the financial system). Base data on property ownership has been inputted, and is maintained, centrally. Services are able to add and amend their own information, including details of building condition, utilisation, etc. The system currently produces a wide range of management information (for example, the asset register for capital accounting purposes, forecasts of capital receipts and property availability) and is being further enhanced to include site photographs and to monitor income from planning obligations on property developers.

Reviewing holdings

47. Raising the profile of asset management is a first step towards proper scrutiny of the use and costs of property. The property resource needs to be actively managed. Managers at the centre and in service departments should review asset holdings and gather information that will help them to demonstrate best value and to understand:

• What property do we have now, and how well is it meeting objectives?

• What are our long-term needs for property?

• How can these be achieved and funded [EXHIBIT 10]?

48. Attention could be focused, in the first instance, on those assets that do not support service provision and, hence, are less politically sensitive. Of 120 authorities that responded to the Commission's non-operational property questionnaire, 89 per cent had disposed of some non-operational property during 1998/99, but this ranged from just one or two sites to over 80 per cent of the total portfolio. Returns indicate that the primary factor in disposal was (understandably) the desire to obtain capital receipts, rather than a recognition that the assets concerned were not making an adequate return on investment. However, some authorities

EXHIBIT 10

Key questions for property review

Councils need to review the sufficiency, suitability, condition and cost of existing property.

suitability cost
sufficiency condition

Non-operational property	Administrative property	Service property
• Why does the council own this? • Could this capital be better employed?	• Can we make do with less? • Could we relocate somewhere cheaper? • Can we share with other agencies?	• Is this building sustainable? • Would this service be better located elsewhere? • Are there other (better) means of provision?

Source: Audit Commission

adopt a more proactive approach. For example, Chester City Council has a small dedicated team that scrutinises the performance of all non-operational sites against the council's objectives – primarily income maximisation and employment generation. The team manages a self-financing programme of reviews which last year secured receipts of £1.6 million for reinvestment in higher priority schemes. Over the past ten years, Sunderland City Council has rationalised council shopping parades, disposing of one-fifth of the 250 units and improving those that are commercially viable or socially necessary; total rental income has increased by 50 per cent over the same period.

49. Attempts to assess the financial benefits of retaining non-operational property are currently hampered by the paucity of data. Authorities should review and monitor this element of their portfolios to assess:

• whether such investments make an adequate financial contribution to services; and

• if assets are held to fulfil non-financial objectives – in particular, economic development and social well-being – whether they are the best possible means of achieving those objectives **[EXHIBIT 11, overleaf].**

It is for individual authorities to set their own objectives, but best value is unlikely to be served by tying up capital in property that does not deliver or support one of the authority's core services. For example, to justify retention of industrial land, a council must demonstrate both an adequate rate of return on investment and that there are no other ways of stimulating the desired economic development (for example, by grant-aiding relevant companies).

EXHIBIT 11

Reviewing and challenging non-operational property holdings

Authorities need to review the relative costs and benefits of investment in non-operational property.

Why do we need this property?

c h a l l e n g e

compare

Income generation?

Social well-being?

Economic development?

Do all properties make a rate of return comparable to other commercial lettings in the area?

Do we have the data to prove this?

Do the outputs/outcomes justify the inputs, eg:

- how many new jobs are created?

- do the objectives of organisations occupying council property (eg, voluntary bodies) reflect authority priorities?

- are there other ways to achieve these outputs (eg, grants, advice, advertising)?

consult

compete

Action Plan

1 Identify and assess potential alternative uses for this capital

2 Undertake regular option appraisal of capital and revenue consequences of holding/disposing

3 Set (measurable) targets and dispose of under-performing properties

Source: Audit Commission

50. A significant number of council properties house administrative functions. Office accommodation is a costly overhead and authorities need to seek ways to minimise space and cost. Structured space reviews or 'audits' can identify opportunities to use existing space better and thereby reduce the need to acquire additional accommodation in the future. The Commission carried out focus groups of office-based staff in each of the ten fieldwork sites, which proved to be a useful forum for staff to express problems and to make suggestions for improvement. When reviewing office space, authorities should also consider the potential for staff to hot desk or work from home, whether support staff could be located in other agencies' buildings, and whether facilities are suitable but not luxurious [**BOX D**].

BOX D

Reviewing the use and management of office space

About the building	About the use of the building

Office layout
- Would open plan be more space-efficient than cellular offices?
- It may be more cost effective to demolish existing partition walls than to acquire additional office space.
- Has the authority adopted per capita space standards to guide decisions?

Services
- Staff numbers in particular locations may be constrained by lack of IT connections, toilets or other facilities. Would an upgrade be more cost-effective than acquiring a new building?

Storage
- What needs to be stored and for how long?
- Could more use be made of warehousing, electronic storage, or more space-efficient shelving systems?

Furniture
- Is existing furniture suitable for flexible working methods – for example, wheeled drawer units for hot deskers?
- Does any new furniture acquired make the best use of the space available?

Working methods
- Do all employees need a desk space?
- Would flexible working hours help free up space?
- What potential is there for sharing space with other departments or with partner organisations?
- Can new staff be accommodated within existing space?

Single-purpose rooms
- Can all departments justify their own interview and meeting rooms?
- Are training rooms, canteens, managers' offices, etc. used for meetings when not required?

Staff facilities
- Are there quantifiable business benefits to retaining dedicated social, sporting or catering areas?

Communications
- Are there opportunities to use electronic communication to reduce the need for space – for example, using video conferencing to conduct meetings, or allowing staff to work from home using modem links?

Source: Audit Commission

Sharing offices with other agencies has both financial and 'service' benefits.

51. A number of authorities have identified efficiency savings within their office portfolios. Birmingham City Council has a five-year strategy to reduce central accommodation costs by 15 per cent per annum, through a combination of rationalisation and moving out of expensive leased accommodation in the city centre; ongoing revenue savings of £3.2 million have already been achieved. Warwickshire County Council has vacated one of its four office premises in Nuneaton by improving floor layout and increasing occupancy in other buildings; this will result in annual savings of £32,000 once the lease is sublet or reassigned. Other authorities are seeking to share offices with other agencies – an approach that has both financial and 'service' benefits for both parties [CASE STUDY 2]. As a further example, Warwickshire proposes to sell its two current training centres, contributing the capital receipts to a new multi-agency criminal justice centre, including conferencing and training facilities, located at police headquarters. Often, rationalisation of one element of a council's portfolio can have knock-on benefits for other service areas [CASE STUDY 3]. Finally, both financial savings and environmental benefits are available through pursuit of energy efficiencies in council buildings (Ref. 15).

CASE STUDY 2

Surrey property sharing and 'Workstyle' initiatives

Surrey County Council has developed a number of property sharing initiatives within the authority and in collaboration with other local agencies, such as the districts and the health authority. One previously under-utilised library now rents surplus space to a post office, while another lets space to a playgroup. Some of Surrey's highway engineers share an office with their counterparts at Mole Valley District Council, thus enhancing collaboration. Epsom Lifestyle Centre is a major new project funded from a Capital Challenge bid: it will house a library, information centre, community-use rooms, an elderly persons' centre, crèche, gym and gallery. There will also be a GP practice. Private sector providers will run a health club and car park in the complex, while the county and districts are committed to providing social housing on the site.

Surrey 'Workstyle', on the other hand, aims to slim down an existing portfolio of 90 office buildings throughout the county into a structure consisting of one headquarters (county hall), four area offices and 25 local satellites. Research showed that the average desk space is currently in use for 65 per cent of the working day, but that some were used for as little as 10 per cent of the time. The new structure provides four desks for every five employees, but peripatetic staff will be able to dial into the computer network from home or any council location. The 25 satellite centres will be managed by an external contractor and will have much longer opening hours than conventional accommodation. Total annual office costs of £7 million are forecast to fall by at least £2 million. Staff will benefit from the ability to work more flexible hours and reduced commuting, while users will benefit from being able to contact the authority (and partner agencies) at more convenient times and locations.

CASE STUDY 3

Wider benefits of property rationalisation – Sunderland depot accommodation

Sunderland City Council undertook a review of council depot accommodation, with a view to rationalising from 12 sites to 4. As options were explored, it emerged that other service departments could benefit through a 'domino effect' of office relocations and deals with property developers. In total, the review and rationalisation programme encompassed seven departments and involved the acquisition of three new sites, the disposal of nine sites, one major refurbishment and a number of smaller improvement schemes. The 'balance sheet' for the programme currently shows a net gain in capital receipts (the difference between sales and acquisitions) of £194,000. In addition, it is estimated that there will be a net revenue saving of £400,000 annually.

The small overall gain in capital receipts has been supplemented by two new assets constructed for the council through agreements with property developers – a group of shop units and a new branch library. The library and shops, which have a joint capital value of £1.9 million, were constructed by a supermarket chain in return for the council releasing a surplus shopping centre and library. In addition to the financial gains, benefits have been identified in terms of better working environments, economic regeneration, reduced travelling times and social planning gain (one of the depots sold to housing developers was in a private residential area).

52. But do councils need to own offices at all? Legal ownership is not always necessary to ensure continuity of service to the public, and leasehold can sometimes offer greater flexibility in situations where demand for a particular service in a particular location is uncertain.[1] Local authorities operate in a dynamic environment and, as a result, their need for space is not constant. New legislation (for example, health and safety stipulations), reorganisation and changing service priorities can all affect demand for office space. In order to minimise cost and maximise flexibility without sacrificing stability, councils should consider moving towards a balance of owned and leased office accommodation. For example, a core of freehold accommodation – the town hall, say – could be supplemented by space leased on a short- to medium-term basis, which can be relinquished if needs decline. As a further step, PFI and other

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1   The pros and cons of leasing, as against buying, will vary depending upon local circumstances.

public-private partnerships have established the concept of external management of a facility/service in return for a fixed fee. (However, councils considering outsourcing the management of their facilities would be wise to rationalise first, thus obtaining capital receipts and ensuring that they are not paying for more space and 'management' than they need.)

Greater innovation and imagination in service delivery methods

53. As local government modernises its working practices, so councils are starting to rethink the way in which services are delivered. Both the *Modernising Government* White Paper (Ref. 16) and best value emphasise the importance of developing services that respond to customers' needs and convenience, rather than those of the service provider. Public surveys consistently show that most people would prefer to have their query dealt with over the phone or by post, rather than in person. The internet is already a powerful tool for informing users about council services – virtually all local authorities have a website – but it is underdeveloped as a means of two-way communication. Fewer than one-third of council internet sites currently permit transactions (such as renewing library books or registering complaints) that might reduce the need to visit council offices in person.[I] Innovative councils are using technology and entering into partnership arrangements to achieve the dual aims of:

- improving service accessibility and responsiveness to customer needs; and

- obtaining better value from assets **[CASE STUDIES 4 AND 5]**.

CASE STUDY 4

Joined-up services and use of technology – London Borough of Lewisham

As part of its modernising agenda, Lewisham is pursuing a policy of rationalising service provision through:

- the creation of frontline service access points; and

- reduction and relocation of 'back office' space.

One early initiative is a one-stop shop based in the council's central revenues and benefits office. 'AccessPoint' provides customers with services and information across a range of local and central government services. Queries about local services such as council housing, housing benefit, travel passes and refuse collection can be dealt with face-to-face. This service is supplemented by a two-way video interface that enables the public to speak directly with the Department of Social Security (DSS), the Child Support Agency, Customs and Excise and the Metropolitan Police. The scheme, which has received a local government IT excellence award, is part-funded by the DSS.

cont./

I   Audit Commission survey of 100 local authorities, August 1999.

CASE STUDY 4 (cont.)

Elsewhere, the authority is consulting on proposals to close three existing libraries and two neighbourhood housing offices and to replace them with a single multi-service access point. Although some customers will need to travel further as a result, the location of the new facility was informed by the council's citizens' panel and will be more convenient for the majority. The Council believes its community leadership role includes encouraging other service providers – for example, health and post offices – to 'join up' and rationalise services on a similar pattern.

In addition, efforts are underway to reduce the amount and cost of office accommodation. A pilot scheme within the town hall reduced the number of desks provided for 70 social workers to only 20. It is hoped to extend hot desking and home working to other locations, possibly as a precursor to moving to outsourcing the management of office facilities.

CASE STUDY 5

Improving service accessibility – Hertfordshire County Council

Hertfordshire is implementing an ambitious programme to improve the accessibility of its services. 'Herts Connect' aims to:

- simplify access to council services and reduce the need for members of the public to visit offices in person – by setting up a customer service centre to deal with telephone and email contacts from the public and offering electronic access to services from sites across the county;

- fund new technology and changes to buildings by disposing of some existing property and introducing flexible working practices; and

- develop a more integrated approach to cross-agency services.

The customer service centre opened in October 1999 and, by December, was dealing with 25,000 calls per month. The first services to be included are libraries (enquiries and renewals), environmental services, and business and trading standards advice. Calls are expected to rise to 100,000 per month during 2000 as additional services are added. The centre is open for 67 hours per week, including Saturdays, and more than three-quarters of callers' enquiries are satisfied first time. The remainder are referred directly to the appropriate point. The service will be enhanced in future with the launch of an interactive website and the further extension of hours of access. The centre will also be able to deal with some enquiries for Three Rivers District Council. Set-up costs have been funded by capital receipts from the council's property disposals programme.

The 'Workwise' programme aims to reduce the number of desks by over 700, county-wide, by the year 2002 (occupying 26 per cent less office space). All departments have targets and action plans to achieve their share of the reduction. Social Services are particularly advanced in their progress, having already 'lost' 100 desks and released an entire building for disposal, generating annual revenue savings of £350,000. Workwise uses a fully networked computer system with email and a phone system whereby calls can be automatically diverted both within and outside council accommodation. Telephone transfer, together with modem links to allow laptop users to dial into the network, make it possible for officers to work from home where appropriate.

Approaches to joint working with district and health authorities are being explored through joint property reviews in certain areas and a pilot study of services for children with learning disabilities.

Smarter methods of delivery will be required to ensure levels of service can be maintained or improved within existing budgets.

54. The Government has set a target for 25 per cent of government services to be capable of being delivered 'electronically' by 2002, rising to all services by 2008. A Cabinet Office working group is reviewing these targets and how they might be achieved. In addition, the Cabinet Office is working with the LGA to identify appropriate targets for local authority services, in association with the best value regime. Meanwhile, the Treasury has launched the second bidding round for the *Invest to Save* budget, which will allocate £230 million over four years. To be successful, bids must increase joint working between different parts of government and identify innovative ways of delivering services that reduce cost and/or improve quality. Successful bids from the first round included a partnership involving 16 local authorities, 3 central government departments and the University of Salford, which has developed a pilot project for the electronic delivery of enforcement services – planning, building control, health and safety, and food safety – through a single point of contact.

55. Looking to the future, it is possible to foresee a pattern of fewer major public service buildings, but a larger number of access points. Public resources are limited and smarter methods of delivery will be required to ensure levels of service can be maintained or improved within existing budgets, especially in rural areas. Counties and districts, in particular, need to work more closely together and share accommodation wherever possible. Population centres that cannot justify a fully-staffed service could use existing buildings, such as schools or village halls, to provide electronic access and scheduled advice 'surgeries' run by staff from the council and other local services **[EXHIBIT 12]**. A recent Cabinet Office report outlines options for sustaining and regenerating rural areas, including mobile provision of services and the establishment of 'information hubs' based in post offices or village halls (Ref. 17). Separate research from the People's Panel[1] suggests that the public is receptive to alternative locations for the delivery of central and local government services. Post offices emerged as the most attractive place for carrying out transactions such as applying for benefits or accessing information: libraries, supermarkets and banks were also highly rated. Knowsley Council is installing 160 public access points in libraries, council offices, schools and other buildings, offering electronic access to many services, including notification of housing repairs.

56. Of course, not all parts of the population are able, or willing, to make use of new technology. This includes many of the core users of local authority services, in particular the elderly and those on low incomes. One-half of the People's Panel members aged over 70 have no experience of using new media and one-quarter say that they would not be prepared to use these methods to deal with government. Opposition to technology will fall as its use becomes more widespread, but some people are always

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[1] The People's Panel is a group of 5,000 people who are consulted on Government ideas, run by MORI and Birmingham University's School of Public Policy. It was established in October 1998.

EXHIBIT 12

Illustrative example of future public service delivery arrangements in a mixed urban/rural area

Inter-agency sharing of property and greater use of technology are required to improve service quality and accessibility.

Built-up area

0   10 miles
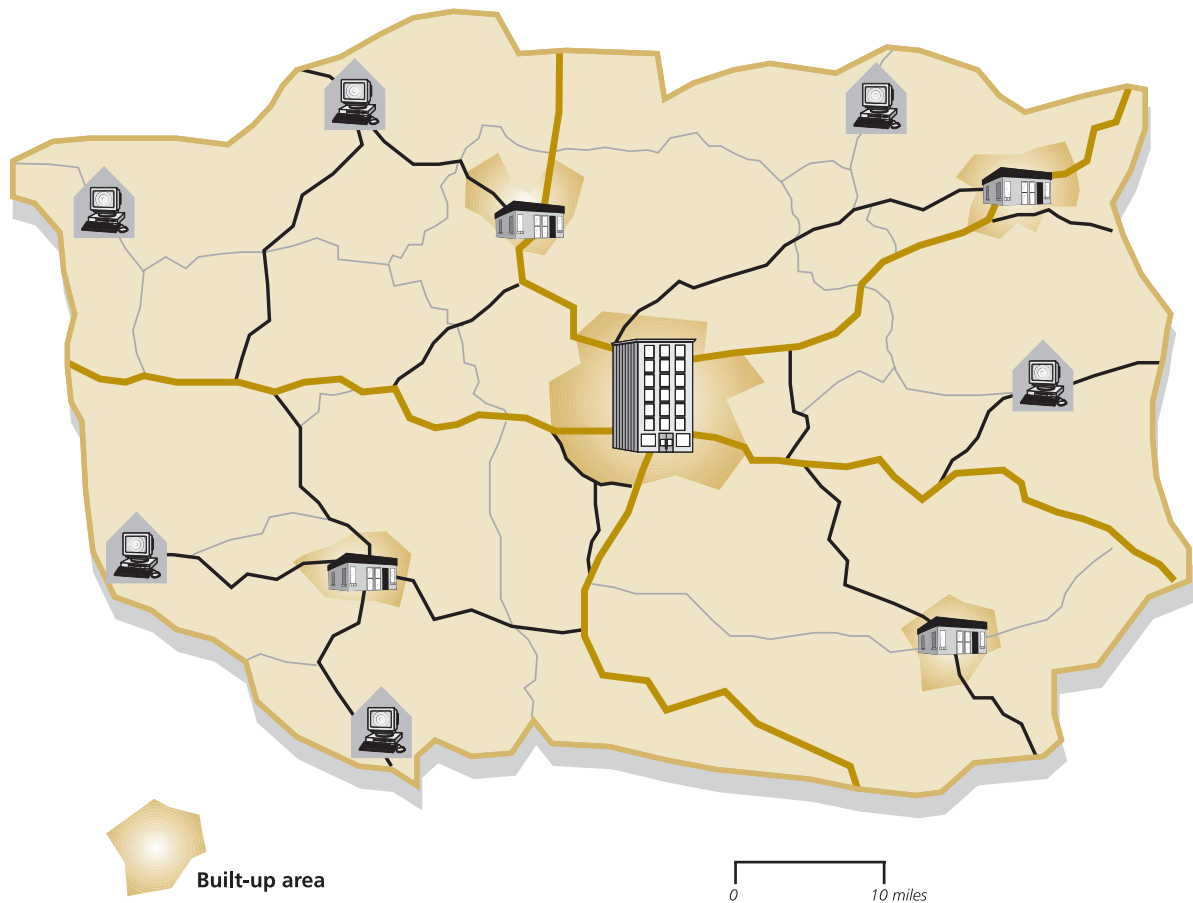
Building type/status	Includes...
Headquarters	Public enquiry desk – access to: • county and district services • police, DSS & other local services Office-based staff Internet/video links to externally-based staff and services
Area office	Public enquiry desk and internet/video access to services Office-based staff plus satellite base/network access for peripatetic staff Possibly attached to an existing facility (eg, library, leisure centre)
Local service point (could be a school, library, village hall, post office etc.)	Internet and video access to HQ and area-based services Scheduled 'surgeries' run by staff from area offices or headquarters

Source: Audit Commission

likely to prefer to see a person face-to-face. On the other hand, technological developments offer an excellent opportunity to make council services more accessible to non-English speakers who have traditionally been hard to reach: multi-lingual information and advice can be provided much more cheaply using IT and video conferencing facilities. Within local government itself, some senior managers need to improve their awareness of the opportunities offered by IT – of over 200 IT managers and heads of policy responding to a recent survey, only one-half considered IT important for modernising public services; 10 per cent thought it was 'irrelevant' (Ref. 18).

57. The use of property resources, and alternative options, should be a standard consideration in every best value service review. Strategic property managers have an important role to play in best value and other modernisation initiatives. In particular, they can help to ensure that the whole-life costs of property are taken into account when the costs and benefits of current and alternative service delivery methods are weighed. As officers grapple with the implications of these changes, elected members should lend their support, even though this will sometimes involve difficult decisions about closing local service buildings.

Improving property management procedures and services

58. Systems and procedures for managing property, as with any resource, have an impact on how well it is used. Individuals with responsibility for property – from elected members and senior officers to unit managers – require appropriate and timely management information in order to discharge those responsibilities effectively. Also, realistically, incentives of some form will be required to make sure property occupiers make the best use of their resources and do not hold more assets than necessary. Meanwhile, the role and performance of property departments should be reviewed. In summary, authorities need to:

- further develop financial and management information systems for property;
- build incentives into schemes of budget delegation;
- strengthen the 'client' function for procuring property services; and
- measure and improve the performance of internal property services.

59. Lack of information has so far prevented most authorities from comparing the usage and cost of their assets, either internally or with other authorities. The advent of new and better information systems, associated with AMPs, should improve this situation. The type and nature of information collected should be clearly related to need [EXHIBIT 13]. In parallel, authorities can take steps to improve their existing core systems. At a minimum, financial databases should be capable of providing individual service unit managers with the information needed to interpret and manage the property elements of their delegated budget, and for

departmental heads to compare the relative cost of their units. As councils update and improve their systems, they should build in a distinct cost centre for each property asset of any size, and the potential to group costs in a way that will enable simple calculation of total property costs and comparison of running costs between sites. The nature and frequency of property information required by members and officers at various levels should be set out in the authority's AMP. Central Government's property agency, Property Advisers to the Civil Estate (PACE) is currently

EXHIBIT 13

Property data required to support effective asset management planning

The type and nature of information collected should be clearly related to need.

Registration of assets
- Address
- Size
- Building type and age
- Tenure

Strategic asset management
- Value/s
- Condition/ maintenance requirements
- Location (map-based if possible)

The database should be:
- Accessible to property department and service managers
- Linked to other databases, eg, financial system
- Capable of making comparisons within and outside the authority
- Able to meet external information demands (CIPFA, Government departments etc.)

Day-to-day property management
- Floor areas and occupancy levels
- Running costs (including repairs, energy, water and cleaning)

Source: Audit Commission, adapted from DETR good practice guidelines (Ref. 19)

The most effective incentives are likely to be those that are meaningful and comprehensible to managers.

developing a national electronic register of government property; participation of local authorities in this scheme is invited.

60. Much attention has been focused on how to encourage property occupiers to make the best use of their assets. Allowing service departments to retain a proportion of capital receipts from the sale of 'their' assets has proved effective in encouraging departments to volunteer property as surplus, but has no impact on how retained assets are used. To date, the debate has focused largely on using capital accounting to 'charge' occupiers for the use of assets. Asset rents are a useful concept, but very few councils have managed to introduce them in a way that affects user behaviour. This is usually because where asset charges increase or decrease, budgets follow (cancelling out any possible incentive) and, to a lesser extent, because few service managers understand the complexity of capital accounting rules. Hence, budget-holders have tended to see asset charges as an uncontrollable, 'below the line' cost. Revenue incentives, on the other hand, have the advantage of being more transparent. Where controllable costs – for example, energy – are delegated, there is a case for allowing budget-holders to retain a proportion of any savings they make. Councils are experimenting with a number of options **[BOX E]**, the most effective of which are likely to be those that are meaningful and comprehensible to managers.

BOX E

Incentives for service departments to rationalise or use less space

The Commission found examples of the following incentives:

- North Devon District and Chester City councils both make civic centre accommodation charges on the basis of floor area occupied, giving an incentive to departments to use the minimum space required.

- Hertfordshire County Council introduced a capital payback scheme in 1996/97, aimed at reducing the impression of capital as a 'free good'. Service departments are required to make revenue repayments over a specified period, depending on the type of asset acquired. At present, the scheme applies only to new investment funded from non-earmarked basic credit approvals, capital receipts or the capital reserve, but extension to other funding sources is being considered. Hertfordshire also runs a scheme whereby school governors may retain funds, up to a set maximum, from a sale that they have promoted.

cont./

BOX E (cont.)

- In Birmingham, departments that release property are entitled to 25 per cent of the value of the receipt, up to a maximum of £250,000 (unless below £5,000, in which case they keep the whole receipt). In addition to the capital receipt, service departments retain in their budget the revenue costs for the space that they have released. If the property is used by another department rather than being sold, a sum equivalent to the capital receipt is transferred. 142 properties have been released by service committees since the scheme was introduced in 1996.

- In the Metropolitan Police, responsibility for the cost of vacant property remains with the occupier for 12 months after notification to the property department, or until it is reallocated or sold. This acts as a performance indicator for the property department and an incentive to occupiers to plan ahead, thus avoiding excess accommodation charges.

Source: Various authorities

Authorities need to strengthen their capacity to act as an informed or 'intelligent' client for property services.

61. Many of this report's messages are targeted at service managers and chief officers at the centre of the organisation. But, of course, property professionals have a vital role to play – both as the champions of better asset management and through the quality and cost of their services. Authorities need to strengthen their capacity to act as an informed or 'intelligent' client for property services – deciding what services are required, how these are best procured or provided, and ensuring that value for money is achieved. In particular, they should use the framework of best value to:

- **challenge** whether the services are required at all, and whether they should be provided and structured as they are at present;

- **compare** activity levels, unit costs and customer/user satisfaction levels over time and with other similar authorities;

- **consult** users about their satisfaction with current procedures and performance, and canvass ideas for improvement, perhaps through a questionnaire or focus groups. Involve users in service and contract specifications, monitor performance and set up mechanisms for obtaining user feedback on services received; and

- **test the competitiveness** of all service elements through meaningful comparisons with other local authorities and private sector providers; test the market for all services at regular intervals [EXHIBIT 14, overleaf].

EXHIBIT 14

What does best value mean for property services? – some sample questions

Authorities need to decide what services are required, how these are best provided or procured, and ensure continuous improvement in cost and quality.

Source: Audit Commission

CHALLENGE

- Which services do we need to provide in-house?
- Would it be cheaper to buy in some services as and when required?
- Why this departmental structure?

COMPARE

- Do we benchmark our performance with others, both internally and externally?
- Do we measure outputs and outcomes against inputs?
- What targets can be set to ensure continuous improvement?

PROPERTY SERVICES

CONSULT

- What do our customers think of our services?
- What do they think we could do better?
- Do we obtain user input when deciding how to procure services?

COMPETE

- How much do similar services cost elsewhere?
- Have we compared prices with both public and private sector providers?
- Could we still demonstrate competitiveness if services were packaged differently?

62. What might result from such a review? Many service providers have already changed their approach significantly. One authority plans to follow up its review of property services by outsourcing all design and other non-strategic services, as current and projected activity levels do not justify retention of a specialist in-house function. Another has entered into a partnership with a private sector provider. Others have simply changed structures and procedures to improve their services. Although there is no blueprint for how internal property services should be structured, management clarity is enhanced if all (non-strategic) property service heads report to a single chief officer. If property professionals are to be a force for change and improvement within local authorities, they must adopt a much stronger focus on their customers – helping them to articulate and prioritise their needs – and on the measurement of outputs and outcomes. Many private companies are adopting a 'facilities management' approach, whereby all workplace support services (for example, property, equipment, telephone and post) are provided from a single department. Such an approach could be successful in local authority office accommodation.

63. Best value requires authorities to make smarter use of information and benchmarking to demonstrate improvement. Such processes can be applied both to property itself and to property support services. The various local authority property societies[1] have already made significant

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[1] In particular, the Association of Chief Estate Surveyors (ACES), the Association of Chief Corporate Property Officers in Local Government (COPROP) and their over-arching body, the Federation of Property Societies (FPS). In Wales, the Consortium for Local Authorities in Wales (CLAW).

progress in benchmarking property services [**CASE STUDY 6**]. For example, the Federation of Property Societies runs a national best value benchmarking scheme which has 65 members, including a few private sector organisations, and contains modules on professional services, estates management, energy management and maintenance. Such initiatives are encouraging. Membership of private sector benchmarking groups could also prove useful, particularly for authorities with a significant commercial portfolio. In general, information about the cost and volume of property activities (ie, property services departments) is currently more widely available than data on how much property itself costs to maintain. This partly reflects a beneficial legacy of compulsory competitive tendering (CCT), but it also indicates that most authorities are focusing their early best value efforts on property management as a support service, as opposed to property as a resource.

CASE STUDY 6

Inter-authority benchmarking of property services

The London branch of the Association of Chief Estate Surveyors (ACES) has produced benchmarking data from a questionnaire completed by its 24 members. Together they agreed the areas for benchmarking and definitions for the terms involved. The questionnaire covered the staffing of property departments, the size and type of portfolio, and the department's income and expenditure. Questions were asked about processes – for example, the time taken to complete valuations – and outputs such as rent collection and bad debts.

The chart below, showing rental income from commercial lettings, is an example of the information generated. This is a 'can-opener' indicator that should lead those authorities that have seen a below-average increase in income to question whether they are maximising the financial return from their commercial portfolio.

Percentage increase in rent roll, 1997–98 (adjusted for in-year acquisitions and disposals)

Average = 5.5%

London boroughs
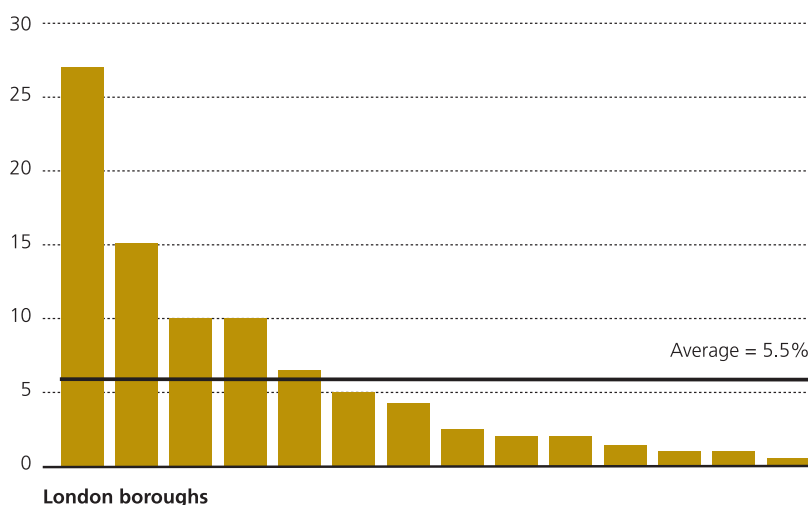
The role of central government

64. The Commission's previous report on local authority property management was widely welcomed by property professionals and others, but progress in implementing good practice has been slow (or non-existent in some areas). Central Government can and should use both carrots and sticks to ensure that public money invested in property is being well used. AMPs are one such mechanism, but authorities will require clear guidance and encouragement from the DETR. It may transpire that the link to capital resources – initially 5 per cent of total allocations, rising to a maximum of 20 per cent – is insufficient to encourage take-up in all authorities. In particular, councils should be given a clear indication of exactly what performance information must be included and how this should be measured. The DETR may also wish to consider following the DfEE's lead by providing short-term financial assistance to authorities wishing to improve property information systems.

65. The Government is as yet undecided whether to incorporate asset management indicators into the existing *national* best value suite of indicators. On the basis of research carried out for this report, there is a strong case for establishing a small number of national performance indicators, following consultation with local authorities. This will allow progress to be tracked over time and help to ensure that those authorities without significant need for borrowing approvals do not overlook this important area. The Commission does not wish to cut across the work of the DETR by suggesting indicators at this time, but will continue to work with Government and local authority representatives to draw up a shortlist of potential indicators. The Department of Health (regarding social services property) and DfEE are also investigating authorities' asset management arrangements. Government departments should take steps to 'join up' their initiatives in this area, in order to provide consistent messages and to reduce duplicated effort for local authorities.

66. The Government's tentative proposals for some relaxation of capital controls and a parallel review of both capital and revenue funding arrangements are encouraging [APPENDIX 3]; tinkering with one lever of the funding system at a time runs the danger of creating problems and inconsistencies elsewhere. In general, councils feel that their freedom to manage, sell and acquire their own assets is excessively restricted at present. A greater degree of trust – with strong checks built in to ensure probity – would be welcomed by local authorities and seems justified within the framework and ethos of best value.

67. Finally, Government has a role to play in encouraging greater communication and interaction between central and local government. This could encompass both sharing good practice ideas and support for, and involvement in, joined-up working. For example, councils would welcome guidance on overcoming some of the practical and legal hurdles to property sharing. Following the *Modernising Government* White Paper, PACE has been tasked with ensuring a more co-ordinated approach to property management across government. PACE runs a central advice unit and is currently working on benchmarking government office utilisation and exploring the implications of flexible working; both central and local agencies would benefit if these initiatives were integrated with similar work being carried out by and for local authorities.

Conclusion

68. Property is not a 'quick hit' in resource terms, but this should earn it more – not less – high-level scrutiny. Modernising authorities are showing what can be achieved through active asset management – better quality, more user-friendly services – but others lag behind as a result of managerial and/or political inertia. Governments tend to reward councils that pursue their own policy objectives: making assets work harder and innovation in service delivery are two current credos. There is also the possibility of greater local financial freedom in the future, with the potential relaxation of the capital control system. Authorities that cling to outdated or unsuitable assets in the belief that this fulfils a responsibility to local taxpayers are unlikely to benefit in this climate. Without sacrificing long-term financial prudence, councils must find ways of using current and future property assets in a way that maximises the quality and impact of the services that they provide.

RECOMMENDATIONS

For local authority managers

	What needs to be done?	Who is involved?	Possible first steps	Report references
1	Enhance awareness of property as a strategic resource that needs to be actively managed at both corporate and service levels. Provide appropriate and timely information to elected members to aid decision-making.	CMT SMs PMs	Policy statement in corporate plan. Training for officers and members.	Paras 13, 44–46 Case Study 1 Box A
2	Clearly identify responsibility for strategic asset management.	CMT PMs	Establish corporate policy covering officer and member roles.	Para 45
3	Develop a council-wide property strategy/asset management plan (AMP) setting out the sufficiency, suitability and cost of existing assets, needs for the future and how these will be achieved.	CMT SMs PMs	Circulate DETR guidelines. Agree corporate priorities. Identify roles and timescales for further work.	Paras 46–47 Case Study 1 Exhibit 10
4	Put in place information gathering and monitoring processes to support the AMP.	PMs	Inventory what information is currently held, and by whom.	Paras 29, 59 Exhibit 13
5	Review assets and challenge whether they need to be retained. Dispose of assets that do not support core service objectives or fail to make an adequate return on investment.	SMs PMs	Pilot a series of property 'questions' in an upcoming best value service review. Target 'easy hits' – for example, vacant land.	Paras 47–49 Case Studies 1, 3 Exhibits 10, 11

Corporate Management Team (CMT)

Service Managers – ie, individual chief officers and their staff

Property Managers – ie, property specialists, including those with strategic responsibilities

RECOMMENDATIONS

11

For local authority managers (cont.)

	What needs to be done?	Who is involved?	Possible first steps	Report references
6	The use of property resources should be considered in every (relevant) best value service review.	CMT SMs PMs	Include basic property review questions in internal best value process manuals.	Para 57
7	Investigate innovative methods of service delivery, maximising the use of information and communications technology to improve accessibility and drive down property costs.	SMs PMs (with IT specialists)	Brainstorm possibilities at team meetings. Look at relevant private sector examples.	Paras 53–56 Case Studies 4, 5
8	Pursue opportunities to share property with other local agencies, balancing cost, quality and user demands.	CMT SMs	Obtain member commitment in principle. Plot location of various public agency buildings in a sample area.	Paras 16, 55 Case Study 2 Exhibits 5, 12
9	Set measurable targets for non-operational property, on the basis of internal and external comparisons.	CMT PMs	Consult individual property managers to identify possible measures.	Paras 21–24, 48–49
10	Review office accommodation across the council and set departmental targets for reduction, to be achieved through the adoption of hot desking or other innovative practices.	SMs PMs	Identify all office buildings, then ask the person responsible for each to record occupancy levels on a sample day.	Paras 17–20, 50–52 Case Study 5 Boxes B, E
11	Establish sensible incentives to ensure that departments use property in the wider corporate interest.	CMT (with support from Finance)	Identify source and nature of recent disposals.	Paras 33, 60 Box F

RECOMMENDATIONS

For local authority managers (cont.)

	What needs to be done?	Who is involved?	Possible first steps	Report references
12	Within devolved financial management structures, align budgets for property with managerial responsibilities wherever possible.	CMT (with support from Finance)	Trace 'audit trails' for common premises-related transactions.	Paras 30–34, 58, 60 Exhibit 9
13	Subject property services to best value review, challenging the current structure and testing competitiveness against other suppliers. Consider locating all services under a single director.	CMT PMs	Join one of the local authority property benchmarking clubs. Consult clients on satisfaction with current structures and processes.	Paras 25, 61–63 Case Study 6 Exhibits 8, 14
14	Adopt a stronger customer focus for property services, matching provision to frontline service delivery needs.	SMs PMs	Run an open forum to discuss service needs.	Paras 25, 61–62 Exhibit 14

Corporate Management Team (CMT)

Service Managers – ie, individual chief officers and their staff

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RECOMMENDATIONS
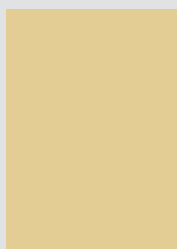
For local councillors

	What needs to be done?	Report references
1	Recognise and fulfil responsibility for ensuring that property is used effectively to support continuous service improvement.	Para 57, Box A
2	Seek information and advice to enhance understanding of the role of asset management.	Paras 12–13, 46
3	Establish property as a cabinet-level issue, alongside other resources such as finance and IT, subject to effective review and scrutiny. Within the cabinet, one member should be assigned the property brief.	Para 45
4	Provide support to officers proposing closure of facilities in order to improve services and to better meet need for the authority as a whole.	Paras 35–6, 57
5	Encourage and facilitate joint working and property sharing with other local agencies, especially between counties and districts in two-tier areas.	Para 55, Exhibits 5, 12

For central government

	What needs to be done?	Report references
1	Work to raise the profile of asset management in local authorities through the introduction and enforcement of AMPs.	Para 64
2	Ensure a joined-up approach to AMPs between the DETR, DfEE and DoH.	Para 65
3	Take the lead in co-ordinating a common approach to data collection and performance measurement, in association with the local authority property societies, in order to reduce the burden on individual authorities.	Paras 28, 64
4	Following consultation, identify a small number of key national asset management indicators to be included in the suite of best value indicators.	Paras 65
5	Accelerate research on alternatives to the existing system of capital controls.	Para 41, 66

Appendix 1: Study advisory group and fieldwork authorities

Members of the study advisory group

Keith Beaumont	Local Government Association (LGA)
Neil Carey	National Audit Office (NAO)
Elisabeth Carter	Associate Director, DTZ Pieda Consulting; formerly Principal Lecturer, Department of Land Management, De Montfort University
Charles Coats	County Property Manager, Gloucestershire (ACES nominee)
Stephen Dodsworth	Consortium of Local Authorities in Wales
Bridget Hardy	Property Advisers to the Civil Estate (PACE), Cabinet Office
Max Peacock	Department of the Environment, Transport and the Regions (DETR)
John Raven	Head of Property, Lancashire County Council (RICS nominee)
Peter Ridley	Director of Property Services, Warwickshire County Council (COPROP nominee)
Alan Tyler	Secretary, Federation of Property Societies

Authorities visited on fieldwork

Birmingham City Council

Chester City Council

Caerphilly County Borough Council

London Borough of Havering

Northampton Borough Council

North Devon District Council

Suffolk County Council

Surrey County Council

Sunderland City Council

London Borough of Wandsworth

Short visits: Hertfordshire County Council and London Borough of Lewisham

Appendix 2: Recommendations from the 1988 Audit Commission report, *Local Authority Property: A Management Overview*

Management Arrangements

- Define responsibility for property at member level; set up a property committee or equivalent body to determine strategy for managing the resource.
- Set up an executive unit at officer level to review property holdings and property running costs.
- Use incentives to persuade users to improve utilisation and control of property running costs.

- Set out property management responsibilities:
  - of the property committee and other central support committees, and relevant chief officers;
  - of service committees and service chief officers; and
  - of building occupiers.

Property Ownership

- Identify all property owned (or otherwise controlled), together with location, size and use.
- Define criteria and measure the use of direct service property.
- Survey the condition of the stock.
- Prepare a five-year maintenance plan taking account of the age profile of the stock.
- Ensure that service committees are charged the opportunity cost of tenanted service property and vacant property.
- Ensure that service committees do not re-use surplus property for some other purpose without reference to the property committee.

Property Running Costs

- Define cost centres for each (major) property.
- Produce regular and timely cost data that can be linked to non-financial data (number of pupils, floor area, etc) to facilitate performance measures.
- Ensure that the different cost elements (cleaning, maintenance, energy, etc) are separately reported and that the information is available to building users.
- Produce league tables of unit costs for libraries, secondary schools, etc.
- Identify programmes to improve efficiency in respect of energy, cleaning, maintenance, etc.
- Review the rateable value of schools in the light of falling rolls.

Property Review

- Institute a programme of reviews either on a service or an area basis, or both.
- Bring information on utilisation and property running costs into the review process.
- Ensure that such reviews are undertaken by staff of sufficient seniority to speak and bargain for their department.
- Ensure that these reviews are short and focused.
- Ensure that users are aware of the opportunity value of their sites where these are significantly higher than present use value.

Tenanted Property

- Define a rationale for holding tenanted property.
- Categorise the portfolio according to the objectives for which it is held (service delivery, investment).
- Make explicit the costs of services delivered indirectly through the provision of tenanted property.
- Value the investment portfolio to determine the rate of return being achieved.
- Examine the need to invest in tenanted property to improve performance.
- Ensure rents are reviewed on the due dates.

Appendix 3: Government proposals for future local authority capital funding in England

The single capital pot will bring together most existing borrowing approvals (basic and supplementary credit approvals). The services covered include education, housing, transport and personal social services. The amount distributed in 2002/03 – the first year of the pot – is expected to be around £2 billion. The Government proposes that a fixed proportion of the pot – at least 80 per cent – will be allocated by needs-based formulae, and the balance by ministerial discretion. In the early years, however, it is likely that the discretionary element will be no greater than 5 per cent.

The DETR commissioned research to identify a single cross-service needs indicator, but has concluded that a number of service-specific indicators (similar to those currently used to calculate Annual Capital Guidelines) offer greater equity and stability to authorities.

The discretionary element of allocations will be made on the basis of:

• an assessment of authorities' corporate capital strategies, which set out their broad approach to investment. Capital strategies will be expected to reflect Government policy objectives, including best value, partnership working and tackling cross-cutting issues; and

• councils' action plans for managing their assets – their AMPs. Authorities have been provided with detailed guidance notes on how to put together AMPs (Ref. 18). Broadly speaking, AMPs should include an assessment of the strengths and weaknesses of the current portfolio, prioritised plans for improvement, and proposals for funding the necessary changes over a 3–5 year period.

More speculatively, research carried out for the DETR has raised the long-term possibility of repealing most existing statutory capital controls – including centrally determined credit approvals – and replacing them with a small number of statutory 'long stop' indicators of financial prudence. This research acknowledges that tight controls on capital expenditure, introduced to combat the imprudence of a small number of authorities in the late 1980s, are less necessary today and reduce the incentive for authorities to make the most efficient use of their assets.

Although the abolition of credit approvals would end the single pot as an allocation mechanism, the Government has indicated that corporate capital strategies, asset management plans and performance monitoring would continue to be required as part of future arrangements for providing and monitoring financial support to councils.

References

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14. Audit Commission/Housing Corporation, *Stock in Trade: Good Practice in Business Planning for Stock Transfers*, Audit Commission, 1999.

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16. Cabinet Office, *Modernising Government,* White Paper, March 1999.

17. Cabinet Office, Performance and Innovation Unit, *Objectives for Rural Economies*, The Stationery Office, 1999.

18. Society of Information Technology and Management, 13th annual survey of trends in the application of information and communications technology (ICT) in local government (1999).

19. DETR, *Asset Management of Local Authority Land and Buildings: Good Practice Guidelines*, DETR, 2000.

Index References are to paragraph numbers, Boxes and Case Studies (page numbers)

The Audit Commission has produced a number of reports covering issues related to best value and resource management in local government. The following may be of interest to readers of this report:

Seeing is Believing
How the Audit Commission Will Carry Out Best Value Inspections in England

February 2000, 31 pages, free

Best Assured
The Role of the Audit Commission in Best Value

December 1999, 25 pages, free

Listen Up!
Effective Community Consultation

Management Paper, November 1999, 51 pages, £15

The Price is Right?
Charges for Council Services

National Report, September 1999, 79 pages, £20

A Life's Work
Local Authorities, Economic Development and Economic Regeneration

National Report, September 1999, 121 pages, £20

Planning to Succeed
Service and Financial Planning in Local Government

Management Paper, July 1999, 91 pages, £15

Action Stations
Improving the Management of the Police Estate

National Report, March 1999, 60 pages, £20

Management Handbook, May 1999, 89 pages, £25

A Measure of Success
Setting and Monitoring Local Performance Targets

Management Paper, February 1999, 60 pages, £15

Promising Beginnings
A Compendium of Initiatives to Improve Joint Working in Local Government

Wirobound Compendium, 1998, 78 pages, £25

A Fruitful Partnership
Effective Partnership Working

Management Paper, 1998, 52 pages, £15

Taking the Initiative
A Framework for Purchasing under the Private Finance Initiative

Management Paper, 1998, 58 pages, £15

Rome Wasn't Built in a Day
Getting Value for Money from Capital Programmes and Construction Projects

Management Handbook, 1997, 136 pages, £25

It's a Small World
Local Government's Role as a Steward of the Environment

National Report, 1997, 80 pages, £20

Just Capital
Local Authority Management of Capital Projects

National Report, 1996, 88 pages, £12

Local authorities own property valued in excess of £75 billion, including thousands of buildings that are used to deliver frontline services, such as schools, libraries, leisure centres and social services' homes. These assets represent both a major expense for councils and a key resource in their efforts to raise service quality.

Leading-edge councils are working hard to manage property well, but too many others devote insufficient high-level attention to the use and cost of their assets. Most, for example, still lack basic information about the condition and operational suitability of key service buildings. Where authorities fail to recognise the importance of strategic asset management, they run the risk of wasting money or missing opportunities to develop new and more effective ways of delivering services to users.

This report examines the difficulties that face authorities as they strive to get the most from their property assets. It goes on to identify practical first steps for improvement – for example, partnership initiatives or exploiting technology to improve access to services while holding down property costs. *Hot Property* establishes property use as a key best value issue. As such, it is essential reading for senior officers across local government, elected members and the property professionals who support them.