



# ASSET

## THE DRIVE FOR EFFICIENCY

ACES SPRING CONFERENCE  
Glasgow, May 2009

ACES Paper No. 09.5/02

**ANTHONY ANDREW**

Scottish Government



## THE AUTHOR:

Anthony Andrew is the Chief Property Adviser at the Scottish Government, which also involves advising its agencies, Health Boards and non-Departmental Bodies on request. His small team performs all the usual roles in the purchase, disposal and letting of property, but it also offers advice of the effects of legislation and policy.

It helps commission consultants and research. His 20 years at the Scottish Government was preceded by spells in the Valuation Office north and south of the border and three years lecturing in valuation at Aberdeen University.

In his spare time he works with Castle Rock Edinvar housing association, contributes to academic property journals, and acts as an external examiner. He serves on the RICS Scottish Council and has been Scottish Vice Chairman.

## CONTENTS:

INTRODUCTION . . . . .	19
POLICY LANDSCAPE . . . . .	19
UKs EFFICIENCY PROGRAMME . . . . .	20
ASSET MANAGEMENT REVIEW . . . . .	20
CONCORDAT, LOCAL GOVERNMENT AND SOAs . . . . .	21
PUBLIC SERVICE REFORM . . . . .	21
NHS AUDIT SCOTLAND REPORT . . . . .	22
THE GREEN AGENDA . . . . .	22
ENERGY EFFICIENCY . . . . .	23
WHAT IS THE CORE SCOTTISH GOVERNMENT DOING ? . . . . .	23
THE SQUEEZE BITES ASSET MANAGERS . . . . .	23
CONCLUSIONS . . . . .	23

# THE DRIVE FOR EFFICIENCY

## INTRODUCTION

In this paper I intend to concentrate on improved asset management but will also briefly mention the simplification of public sector bodies' estates and national climate change objectives affecting property.

Currently the performance of public sector asset managers is subject to sustained and unprecedented scrutiny. We have had the following reports

- 2 from Audit Scotland
- 2 from the Scottish Government (SG)
- 1 from The Improvement Service
- 2 from Sir Michael Lyons and
- 1 from the RICS

We have the words; do we have the actions?

Public Expenditure projections have contracted very quickly and will be restricted for some years. The last spending review was the toughest settlement for the Scottish Government since devolution. The future looks tougher.

Between 2000 and 2007 the Scottish Government budget grew on average over 6% a year. Since 2007 public spending growth has slowed dramatically, now it is just over 1% pa on average. The Scottish economy faces its greatest challenge in decades. This Government is doing all it can to support economic recovery and help businesses and households through the difficulties ahead.

While economists speculate about when we might emerge from this downturn one thing is self-evident. Asset managers must respond effectively. Conventional management and maintenance is not enough, we must also deliver best value for money.

Policymakers and managers have concluded that properties must be managed more corporately with more central co-ordination of property activity. This brings a corresponding reduction in the autonomy of directorates, departments, NDPBs (Non Departmental Public Body) and agencies in order to exercise property management powers hitherto devolved to them. Individual autonomy will be tempered by recognition of the wider needs of central and local government corporately.

Audit Scotland recently published the report **Asset Management in the NHS in Scotland**. It commented that "Planning and undertaking joint projects with other public sector organisations presents a number of

challenges to NHS bodies" and noted that although there is a requirement for us all to achieve best value the achievement of a narrow measure of best value may cause difficulties in some joint developments. It may not be in the wider interest of the community. In Green Book Option Appraisal terms, the best option from the perspective of the Scottish Government, the local authority or a combined partnership, may be different from the best option for a particular Government Directorate, agency, local government department or partner in a collective partnership. We are being advised by policymakers to stand back and find the best option from the wider Government or local authority perspective, rather than the narrower view of the occupier or the budget holder.

A corporate view may be required from the selling organisation to accept a cheaper solution that offers wider quantifiable returns in the interest of the community. A rigorous attempt to quantify all the quantifiable benefits, and a careful weighting and scoring of the non-quantifiable aspects of a project, should lead the Green Book Appraiser to the optimum solution for Government or Local Authority. From time to time fiefdoms will have to bow to the proper demands of their corporate liege lord. The current squeeze is giving us the political backing to manage property more corporately and efficiently and the opportunity to show exactly what we can do.

### Policy Landscape

The policy and political backing giving us this new muscle includes **The Government Economic Strategy** published in November 2007. This sets out the Government's key purpose. "To focus the Government and public services on creating a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth."

Sustainable economic growth requires a sustainable public sector occupying an economically sustainable estate. We must ask if the overall shape of our estate is economically and environmentally fit for purpose in a bracing economic climate.

The Economic Strategy identifies Five Strategic Priorities, internationally recognised, as critical to economic growth. Three are relevant to property

- A supportive business environment
- Infrastructure development and place and
- Effective government

Delivery of the purpose is supported by a **National Performance Framework** that includes a set of strategic objectives used to "facilitate and add momentum to the realignment of both central government and the wider public sector".

One telling passage from this document notes, "The call to action for all arms of the public sector to support increasing sustainable growth is not an invitation for a proliferation of initiatives, however well intentioned. To

maintain focus and maximise leverage of the public sector, the Government Economic Strategy will require a clear rationale to be established before specific economic interventions are considered. Without addressing significant market failures or legitimate equity concerns, government (with a small g) action risks crowding out private sector activity or creating new sources of inefficiency or inequity. In deciding which course of action to take, a range of options – financial incentives, regulation, direct provision, better information and doing nothing – need to be appraised on the basis of sound analysis and evidence.”

John Swinney, Cabinet Secretary for Finance and Sustainable Growth, has noted the importance of alignment to the **National Performance Framework** (NPF) because

- Firstly, all aspects of the public bodies’ agenda should be in accordance with thinking on the **National Performance Framework** and National Outcomes, and we should ensure closest possible alignment to the NPF, which will not change during the current administration.
- Secondly, our operations should reflect the culture of the government ie to make things happen and take forward developments in a timely fashion.
- Thirdly, we must deliver results. The public sector has traditionally been compartmentalised and input driven. Process often eclipses outturns. Where money is scarce and solutions more complicated, our property strategies must be integrated, cohesive and corporate.

The current economic climate is a challenge to all involved in delivering objectives. The scale of the downturn adds urgency to our responses. Central and local government realises they must trust those of us in property to manage better the massive investment sunk into the estate and so release resources for core public services.

We must do things better and be efficient to help deliver the Government’s Purpose at this critical time.

### UK’s Efficiency Programme

How does Asset Management fit into the Efficiency Programme? There is no doubt Asset Management is a key driver for change at UK and devolved levels. The report by Sir Michael Lyons, **The Review of Public Sector Relocation** in 2004, looked at the question of the optimum location for UK government offices, and in his enquiry into **The Future of Local Government** in 2007 he made a number of recommendations. He reviewed central government estates and suggested a fresh strategy and recommended the Improvement Service work with local authorities; and Sir Michael felt property people could do better and required a change in mindset to deliver.

The importance of asset management was further demonstrated recently by the publication of the **UK Operational Efficiency Programme** that highlighted

the efficiency savings that could be accrued from the improved management of Assets and Property. In particular the report emphasised the need for Government to challenge itself on an ongoing basis and to demonstrate that it is managing assets more effectively. Property rationalisation for a more efficient estate was key, with the report estimating that savings of £1.5 billion of annual running costs by 2013/14 could be possible rising to £5 billion within 10 years.

Although his reports focused mainly on England and Wales rather than Scotland, there are parallels and some lessons. Before the slide in values the core estate of the Scottish Government and its associated agencies and NDPBs was worth well over £20 billion. Local Government estate was estimated at over £24 billion. This is big money even by bank bailout standards.

### Asset Management Review

In late 2007 John Swinney, through his **Asset Management Review**, directed the Scottish Government to manage its assets better across the wider estate as a key element in its efficiency drive. His main aims for the review were

- To understand current legal, financial and management status and responsibilities and
- To identify scope for improvement to current estate/asset management arrangements

The Review findings, published in 28 January 2008, and available on the Internet, noted

- The SG office estate comprised 709 buildings, NIA 723,000 sm
- 66% owned, 34% rented
- Average space per person is 15.72 sm but ranges from 8.5 sm to a staggering 61.9 sm
- Average rent is £159.50 per sm but ranges from peppercorn to an eye-watering £927.54 per sm

The Review’s key findings were:

- There is a broad range of property tenure arrangements from outright ownership, leases and internal occupancy agreements, Memoranda of Terms of Occupation.
- There is a diverse range of budget holders and a
- Variety of management arrangements, decision-making and advice
- Only one-third of the public bodies included in the study had an Asset Management Plan in place
- And there was no centrally held property management information

Given the diversity of bodies and their different remits, inculcating a co-operative corporate culture will be challenging; like herding lizards.

The Review made eight recommendations

1. All parts of Scottish Government to have an AMP
2. Mandatory, single comprehensive database (E-PIMS)

3. Agreed roles, responsibilities and expectations
4. SPFM (Scottish Public Finance Model) and procedures for disposals/acquisitions to be adhered to
5. Agree minimum standard performance targets and benchmarks
6. Promote financial asset management incentives
7. Consider potential development and improvement opportunities
8. Undertake further review of management and issues concerning rural and undeveloped land estates.

Recommendations 1 to 4 required action by the end of April 2008 and were met to varying degrees, 5 to 8 are ongoing, but Mike Russell completed number 8 this year.

John Swinney endorsed all those recommendations and my team are working with colleagues across the Scottish Government towards successful delivery of the SG Asset Management Plan. This means under the **Asset Management Review** (AMR) the Scottish Government, its agencies and NDPBs will adopt a corporate approach to asset management. Decision-making will have to balance the operational and economic needs of the property holder with that of the wider corporate Scottish Government and the taxpayer. This might mean a slightly sub-optimal building or location for the body concerned, for example, refurbishing existing vacant space to save costs. It might mean investment to make a building more environmentally efficient rather than acquiring a new property. It could mean co-location with related bodies to share costs. It could involve all the usual tools of the property manager, for example surrender and renewal, lease extension, refurbishment, sub-letting or assignment to achieve the corporate benefit of reducing costs and improving operational efficiency.

#### **Concordat, Local Government and SOAs**

Ministers expect all parts of public sector, including local authorities, to play their part. The Improvement Service report on more corporate asset management is part of the fruit of this.

The Concordat between CoSLA, the individual Local Authorities and the SG is the bedrock of co-operation. The newly released Audit Scotland **Review of Asset Management in Local Government** identifies property as the second largest cost at £1.1 billion pa (in 2007/8) and 50% of their non-housing assets. They hold 12,400 properties. It emphasises the need to identify the assets accurately and form a robust evidence base. Audit Scotland also wants local authorities to put in place Asset Management Plans, measures of suitability, long term capital planning, integration of sustainability concerns and involvement of elected members.

The report found:

- Only half of local authorities have approved corporate asset management plans in place
- Few councils can provide details of significant savings from property rationalisation

- The impact of joint working between public sector bodies on joint facilities has been slow
- Environmental sustainability is not a key factor in building design.

The scale of the challenges posed by economic recovery requires action at national and local levels. The SG estate of 700 properties is important, but the local authority estate in Scotland is nearly 18 times bigger. As elected members realise the size and potential of the estate, the operational gains and cost saving good corporate asset management can produce, you should become more popular with resource strapped colleagues delivering vital services.

It is not surprising that the Concordat between Scottish and Local Government offering greater freedoms, coupled with the straightened resources, is leading both Audit Scotland and John Swinney to exhort us to think corporately about assets, to release resources and energies from the asset side to the service side of our respective employers.

Among other things, the Concordat set out the need for Local Authorities to develop Single Outcome Agreements (SOAs). Through their local decisions and actions Councils can remove barriers, identify synergies and release resources to promote recovery. The Concordat also paves the way for Single Outcome Agreements to be the vehicle for uniting public sector organisations locally behind a common purpose and set of outcomes. They can set clear directions with local partners and allow them to contribute fully.

The challenge for local partnerships is how to use the freedoms offered by the SOA-based approach to respond quickly, flexibly and coherently to changing economic circumstances. As the successful North East Scotland Public Sector Property Group has discovered work still needs to be done to iron out problems. A different VAT regime may apply to a building project partnership from its exempt members. Different disposal rules and accounting conventions can be troublesome in partnerships involving central and local government. These need working on, but at least there is a sympathetic political and policy environment within which to resolve these.

One of the dividends of the Concordat is the transfer of responsibility for local economic development to local government so that recovery can be driven forward in partnership at local level to suit the distinctive circumstances and priorities of different communities in Scotland.

#### **Public Service Reform**

At a recent CoSLA conference the Cabinet Secretary noted his determination to be absolutely clear about the scale of the challenges we face. He also looked positively at what the Scottish Government is doing through our public service reform agenda to strengthen and modernise the public sector in Scotland. These reforms aim to align the public sector towards common goals,

reduce duplication, remove barriers and encourage innovation. This work was important before and is now vital to equip the public sector to deal with economic change.

Our more robust approach should help us to address the major, cross-cutting challenges facing Scotland, in health, education and poverty by moving to a more holistic view, focusing on the longer term outcomes, Scots now live longer, healthier lives, an end to the significant inequalities in Scottish society and ensuring our children have the best start in life and being ready to succeed.

Our reforms aspire to working more effectively with our partners, renewing our outdated public sector landscape, simplifying it, and bringing it together under a shared mission with common goals and a new focus on outcomes. Importantly, we are also aligning all public bodies with the Government's purpose of increasing sustainable economic growth. This is not something that the Scottish Government can do alone. It requires partnership and alignment.

A shared long term strategic agenda delivering communities' needs and aspirations will provide better public services and help focus government on achieving sustainable economic growth. Co-operation on funding social housing, promoting local economic enterprise and joint NHS/local authority working are examples of this. Funding Council support for the articulation of students from further into higher education are all examples of collaboratively overcoming those artificial barriers between service providers which are meaningless to the public.

#### **NHS Audit Scotland Report and the Hub**

The Audit Scotland Report on delivering an effective National Health Service, published in January 2009, highlights a number of recommendations that echo the Scottish Government's Asset Management Review.

Broadly the Report noted while NHS bodies are managing their assets more strategically, better information is needed about asset condition and performance to ensure that they continue to provide the best health services, in the most appropriate settings and the Report goes on to say "This is an area where the NHS may be able to achieve greater efficiency but it is difficult to say on what scale because of the lack of information. SG and NHS bodies have begun to take a joint approach to estate management across the public sector. We need to build on this and ensure stronger monitoring of the outcome of capital projects and the performance of assets."

An example of a collaborative approach to better estates management is the Scottish Government's development of the Hub initiative being progressed by the Scottish Futures Trust. That represents a new approach promoting joint working across the public sector. This initiative is a procurement vehicle supporting long-term infrastructure investment driven by local service needs for local authorities, NHS Boards

and other public sector bodies across Scotland. It will provide a mechanism for delivering community based infrastructure requirements more quickly, effectively and economically and will provide a systemic approach to service and infrastructure requirements in the shorter and longer term.

John Swinney, in a statement to Scottish Parliament, 10th September 2008 said

"The Hub initiative is the first of two major programmes for development that the Scottish Futures Trust will take forward. The initiative will be a catalyst and focus for better development and delivery of community-based facilities across the public sector in Scotland by supporting the more effective planning, procurement and delivery of infrastructure in support of local services. It will support local authorities, National Health Service boards and other public sector bodies across Scotland in delivering their community-based premises requirements more effectively.

The Hub concept not only includes joint planning and provision of physical infrastructure, but embraces wider non-financial benefits of investment including increased joint working for the benefit of service users, scope for flexibility in providing key public services, and lower costs of property ownership through sharing and integrating services where that makes sense."

To date two Pathfinder Territories have been identified and the Programme Development Office has been created to aid the development of the Hub initiative and to help provide structure and facilitate the Pathfinder Territories procuring a Private Sector Development Partner. Although Hub is a procurement rather than a funding vehicle each Territory will get £1.4 million revenue support for project management, initial set up, procurement support costs and organisational development activity.

#### **The Green Agenda**

The Environmental Sustainability agenda is highly developed in both local and central government but its application to the built estate lags behind theory and aspiration. This is because only a small percentage of new sustainable buildings come onto the estate each year and asset managers have a substantial legacy of energy inefficient buildings that are expensive or technically impossible to upgrade. Many public sector buildings from the 60s and 70s were built to a price in a time of cheap fuel with little thought about environmental impact. These are often costly to replace or upgrade and managers face the conundrum of needing to spend money to achieve long-term environmental and financial savings, but are short of the capital to do it. In the Scottish Government's AMR Asset Plans data is being collected to identify the least sustainable buildings that we hope, over time, to manage out of the estate by refurbishment or disposal. However there is a long way to go before achieving this.

## Energy Efficiency

It is important that the Scottish Government demonstrates leadership by providing clear guidance for all public bodies on the actions required to improve energy efficiency and reduce CO2 emissions.

The Scottish Government's performance on energy efficiency in buildings has been criticised. The Scottish Parliament's Public Audit Committee, recently discussed the Audit Scotland report, **Improving Energy Efficiency in the Public Sector**, published in December 2008. The report made several recommendations, for example, the Scottish Government should provide stronger leadership to improve energy efficiency across the sector, and should formally monitor and report on the energy performance of public bodies.

The Committee wrote to Sir John Elvidge the Permanent Secretary in January 2009 with a range of questions from the report. In reply he outlined some actions the Government is taking on energy efficiency, including participation in the Carbon Trust's Carbon Management Programme, a mandatory provision in the Climate Change Bill, to publish an Energy Efficiency Action Plan and to establish the Leading by Example Programme.

The Scottish Government recognises its leadership role for the wider public sector. We are working on Energy Performance Certificates (EPCs) for the main buildings on our core estate. We have displayed operational ratings in our main buildings since 5 January to complement the energy performance baseline provided by the asset rated EPCs. This means that the Scottish Government has exceeded the minimum statutory requirements, and is leading by example.

### What is the Core Scottish Government doing?

Faced with the high flown, abstract and aspirational language of Government the property manager in me always likes to focus on real buildings and practical problems. The Core Scottish Government has 7 main office buildings of which it owns 2. We are moving staff out of 2 buildings in Glasgow, Meridian Court and Europa Building, into Atlantic Quay, where Scottish Enterprise has released considerable amounts of space. We are backfilling vacated buildings with other Government organisations seeking space in Glasgow. Similarly in Edinburgh we will move staff out of Pentland House into our other 3 buildings and we are working with the NHS to backfill Pentland House. We have also absorbed the Communities Scotland buildings and are productively reusing them for other Government occupiers.

Scottish Government agencies and NDPBs must take seriously the UK Government/OGC Co-ordination Agreement and consider carefully using existing vacant space on the estate before taking on fresh property. Proposals for new or additional space are being scrutinised very carefully and weak or ill-considered proposals cannot expect to be sympathetically received by Ministers.

## The Squeeze bites Asset Managers as well!

In a period of tight resources asset managers come into their own as their skills can release resources for the core functions of their organisation so our profile rises significantly. However the downside is that we often need capital upfront to "spend to save" and that is difficult in a time of capital scarcity. Also property market time-lag means that results of decisions taken today may take a couple of years to materialise. In a political cycle of 4 years it is difficult to deliver timely results for our masters.

All the 8 reports mentioned earlier, and especially the Scottish Government Asset Management Review, NHS Estates and the Local Government reports contain similar key themes. Next to employee costs property represents the largest cost to an organisation. As it is a handmaiden service Asset Management often fails to get the recognition it deserves.

The Scottish Government has estimated that in the 2007/08 out-turn report, efficiency gains of £50.6 million were achieved through tough Asset Management. We have Asset Management Plans in all parts of the Scottish Government, but not all are arguably robust enough. Recommendation 2 of the Asset Management Review, "to maintain a single, comprehensive database of property information" has been embraced using the Office of Government and Commerce's E-PIMS, Electronic Property Information and Mapping Service.

My team has just written to over 70 public bodies requesting data updates to use to benchmark against historic data to identify areas where savings could be made.

### Conclusions

Usually professional papers need a rousing conclusion but for asset managers this rings hollow because our work goes on continuously throughout the economic cycle. However the present moment is different. There is growing political support for managing the property portfolio proactively to release investment resources for mainstream policies. This is our big opportunity. To seize it we must overcome 2 human obstacles. We have to

- Dispel the apathy and antipathy of colleagues who see properties they occupy as personal fiefdoms rather than corporate assets and persuade them to use them for the wider benefit of our respective organisations.
- We have to secure our share of resources to make the estate more efficient. Asset managers have to invest to save, and we have to take finance colleagues with us.

If we can do that then the public sector property world is bright with opportunity for us to exercise our professional skills as asset managers as we lead the drive for efficiencies.

Anthony Andrew

