



THE AUTHOR:

Andrew is Director in Corporate Real Estate Consulting specialising principally in operational property management and how this can be used to optimise business/service performance. He is involved in developing and implementing Accommodation Strategies for Local Authorities, Central Government, Education and Private Sector clients.

Andrew is particularly interested in issues relating to funding and project delivery and has advised on the implementation of projects via many routes including: Private Finance Initiative (PFI), Public Private Partnership (PPP), Private Developer Schemes (PDS), and traditional forms of funding to support strategy implementation.

Andrew has been with DTZ (and formerly Donaldsons) for over 15 years and has been instrumental in developing the firm's corporate real estate consulting offer over this period. Prior to joining Donaldsons / DTZ Andrew spent four years with Drivers Jonas in London where as part of a Specialist Valuation Team he dealt with rating appeals, compulsory purchase, valuations and public sector consultancy projects. 152 words



THE AUTHOR:

Laura has a wide range of experience in advising local authorities and other public sector bodies on the effective use of the operational and non operational asset base to achieve cost savings and to enhance income generation.

Laura is working with Mendip District Council to define a strategy for reducing its operational office footprint (and cost) through the modernisation of existing space, the introduction of 'rotating' remote working, a reduction in the daily on-site workstation provision and asset sharing based collaboration with other public sector bodies, by offering surplus space.

Laura led a multi-disciplinary DTZ team to review Bristol City Council's 3,000 strong Investment Portfolio to find opportunities to extract capital receipts whilst maintaining or enhancing the c.£12M annual income from the portfolio. Laura is also a procurement specialist, using regulated and EU compliant procedures, and has also appeared as Expert Witness.

PRACTICAL TIPS FOR COST REDUCTIONS

CONTENTS:

ANDREW SMITH, HIGH LEVEL DIAGNOSTIC

THE PROCESS

LAURA STAMBOULIEH, COLLABORATION IN THE PUBLIC SECTOR.

HAS THE APPETITE 'SHIFTED' SINCE AUGUST 2010?

HAS THE SENTIMENT CHANGED? WHAT IS THE APPETITE SEVEN MONTHS ON?

SO, THE BIG QUESTION IS WHAT QUANTUM OF COLLABORATION IS TAKING PLACE?

CONCLUSION

ACES Spring Conference
London, May 2011

ACES Paper No 11.05/10 by

ANDREW SMITH

DTZ

LAURA STAMBOULIEH

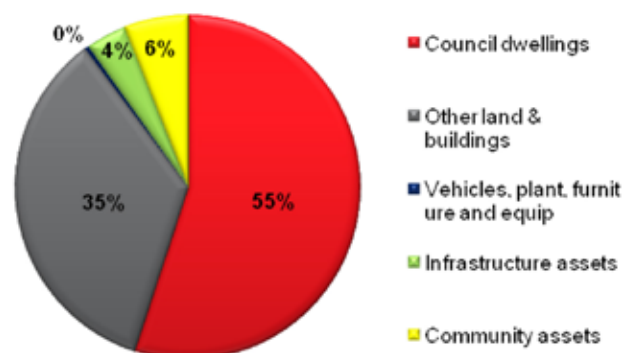
Director, Consulting, DTZ

Andrew Smith, High Level Diagnostic

I intend to introduce you to a tool we call a High Level Diagnostic. This is where we go into an organisation for a short and intense period and look at various aspects of property and property management to come up with an action plan to produce cost and property efficiencies and savings.

The 3 core aspects we look at are the physical portfolio, the way in which the property is managed and the way in which it is funded or financed. These tend to overlap in many areas, sometimes completely, but what we are looking for are things that can be done to improve performance. Some are easy wins that can be done immediately or within one or two months; some of them will take maybe a year or two to sort out. We go in and address where there is scope for saving and improvement, assess the size of the possible prize and what is involved in getting to it. After that an action plan is formed for the organisation to follow to achieve the desired goals. I am going to borrow some of the methodology we use in this paper.

To provide some context on the scale of an organisation's property costs this example of a small Borough Council shows the annual cost of staffing the organisation and the cost of housing those staff in the Authority's buildings. Whilst it would be incredibly difficult to shave 20% from the cost of the organisations' property portfolio which would only provide a small overall saving, re-organising the property to better serve a reduced number of staff may slice 20% from the total staffing cost which would result in a much larger saving.



The Process

Physical Portfolio

First of all we look at the physical portfolio and see how we can align this to meet operational need. The single most important way to cut costs on the estate is to cut floor area. Space equals money. This is true across all portfolios, and it is important to note that this is not only about office space but also other public buildings such as law courts, hospitals etc. which have been progressively getting bigger over the past 30 years or so.

Government is now beginning to realise this and is looking at relaxing space standards, starting soon with secondary

schools. Whenever this happens, it calls for a fundamental re-appraisal of how that portfolio, within the wider portfolio, is dealt with. In terms of aligning the physical portfolio we look at them one by one, e.g. libraries, schools etc. and work out how we can rationalise, make more efficient and get better performance from them. It is not always immediately obvious how to do this. For example, libraries do not need to be as big as they used to be, but it is sometimes more expensive to close a library than to keep it open, so one way of dealing with this is to downsize the existing library and use the remainder of the space for neighbourhood services which, for example, may free up another building elsewhere.

Management

Next on the diagnostic is management. When we do the exercise we look at many aspects of management, and essentially we are looking at the relationship between the wider business planning and the property planning, ie how strong that is, how efficient it is, where it breaks down, and how can it be improved? We also ask how that translates into goal setting and budget setting. At the end of the day we are looking at two key aspects; one of which is operational capacity i.e. getting the day to day running right, and the other is strategic capacity i.e. getting the vision right. There are fundamental questions we can ask about the means of getting there and the means of delivery. Sometimes this needs hard graft and sometimes it is about a structural solution.

Finance

The third main area for diagnostic is finance. It is fair to say that markets have been in turmoil over recent years and we are in a situation now where we have interest rates at 0.5%, which I never thought I would see. We have a private sector that finds it almost impossible to borrow for anything to do with property, we have a public sector that can still borrow, and in fact Local Government's ability to borrow has hardly been hampered even at CSR, although it was made more expensive. The climate has completely changed. The way in which you currently finance your estate ought to be revisited. This is not normal; these are exceptional times and there are many opportunities now to do things to throw out a lot of value. I have been working with many authorities in re-gearing estates and specific properties. Sometimes at the property level it is as simple as just buying in a leased building and that might save 30 or 40%. Currently there are huge opportunities. These are strange times. There is a very large arbitrage at the rate at which you can borrow and what the market has in terms of property yields and what the private sector can borrow at and it is an opportunity to exploit that for value at this time. We are working on a whole raft of new delivery vehicles and they are very much the fashion, but one thing I would caution is that you should always start out with what it is you need to achieve and how best to deliver it. All of these models are not the panacea to everything and some of the deals might not look so good in 5 years when the market has changed.

Property Performance Matrix



This matrix is a simple tool that enables you to get through a portfolio of properties and come to a strategy very quickly. You just ask two simple questions of every property that comes up. One is "Is this property fulfilling any useful aspirational or strategic role; yes or no?" If it is yes it will go on the right hand; if no it goes on the left. And then you ask, "Is this property delivering an acceptable financial performance, yes or no?" If yes it will go in the top half and if no it will go in the bottom half. If you get two yes's then that property is very useful, aligned to corporate objectives and is delivering an acceptable performance. The presumption here would be that that building is retained. On the other hand if it is "no and no" it is not a property worth keeping and you should find a way to get rid of it. If it falls into the two yellow boxes, you need to find ways to get it to move into the green box or consider disposing of it. This is a very simple tool but also an incredibly useful one.

Conclusion

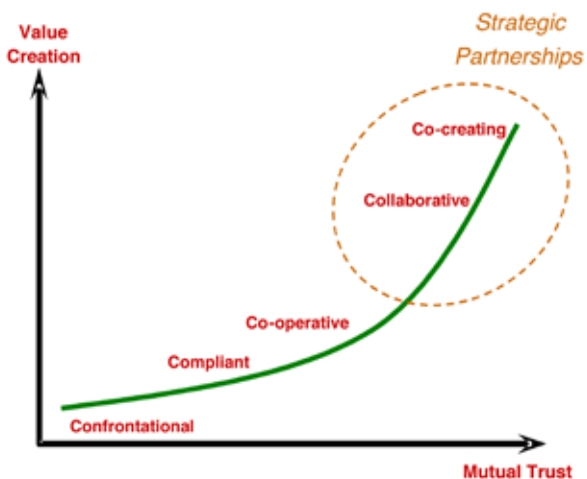
We are in challenging times but that delivers opportunity because I think that more than ever before there is appetite for change and appetite to deal with some of those thorny issues that in the past have been too difficult, like those obsolete town halls that we could not get rid of because of Board members etc. That appetite is now there to face up to such issues. We can now deal with difficult problems and the important thing is that this is the time really for all participants to get involved and contribute to the process that needs to be gone through. I think it is an exciting time for property professionals to show what they are capable of and what they can do. We should look at it as an opportunity.

Laura Stamboulieh, Collaboration in the Public Sector.

Has the Appetite 'Shifted' since August 2010?

You may recall that at the September ACES Conference I did speak and produce a paper about collaboration. Although the theme of that conference was "Property: A Driver for Change," which we being true consultants changed, for our

paper, to "Property: A Driver for Collaboration?" We were reporting back to you on the findings of a survey of mostly Local Government organisations against a context of all sorts of agendas, uncertainties and different forces. Back then ACES members were keen to know where their own organisation was on the graph that represents the evolution of effective collaboration and our overall conclusion was that local government was not quite there ... yet.

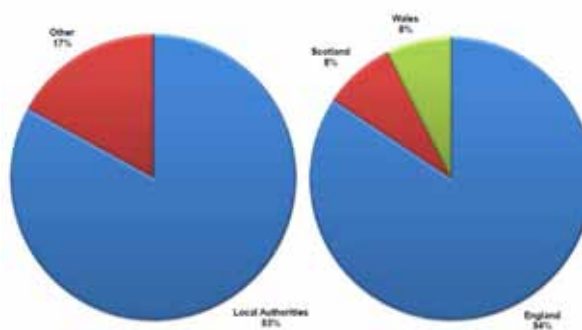


The August 2010 Survey headline results were

- 82% believe that collaboration can achieve significant results, (encouraging)
- 42% confirmed that no recognised formal collaboration existed within their organisation, (disappointing).
- Cost saving was seen as the major driver behind the Government's promotion of collaboration.
- Service enhancement to customers was also seen as a major driver, (interesting).
- 18% felt that collaboration was a threat to their organisation.
- 65% felt that shared asset utilisation was the only way in which true collaboration could work.

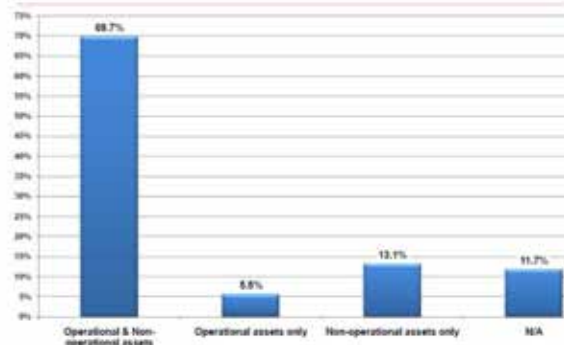
Has the sentiment changed? What is the appetite seven months on?

With the help of the ACES President, Paul Over, DTZ launched a new survey in March 2011. We introduced a few enhancements including giving some categories of collaboration such as sharing assets, sharing real estate services and sharing non-real estate services. The survey was sent to a similar range of organisations, largely Local Government and Emergency Services and Health. In future we intend to consider inviting Central Government to complete the survey too. And this time we asked a little bit more about you, the respondents for example what type of organisation you are, and the geographical location you are based in.



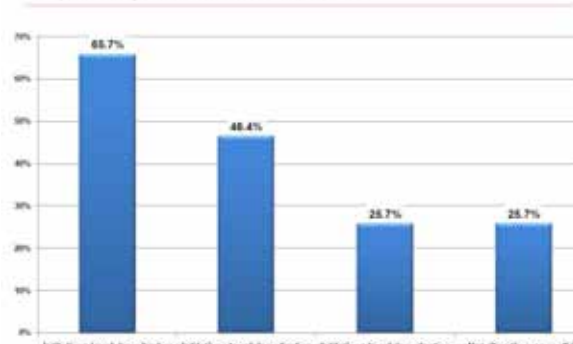
We also wanted to know what your responsibility for property assets was, so we asked whether you were responsible for either operational and non-operational property, or both. Surprisingly the majority were responsible for both, which is similar to the previous survey when 65% described themselves as Head of Property or Estates.

Responsibility for property assets



Finally we wanted to know about your responsibilities for collaboration initiatives and you can see that we have broken those down into the 3 categories and the majority came back saying they were involved in collaboration initiatives involving sharing assets.

Responsibility for collaboration initiatives



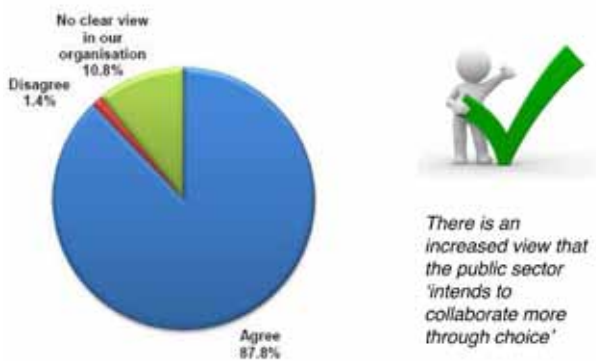
What did the survey tell us this time? First a couple of positives

About 88% agreed that collaboration is high on the agenda in their organisation.

But 11% felt that there was no clear view in their organisation on collaboration. This is slightly worrying but that might be just the perception of that individual.

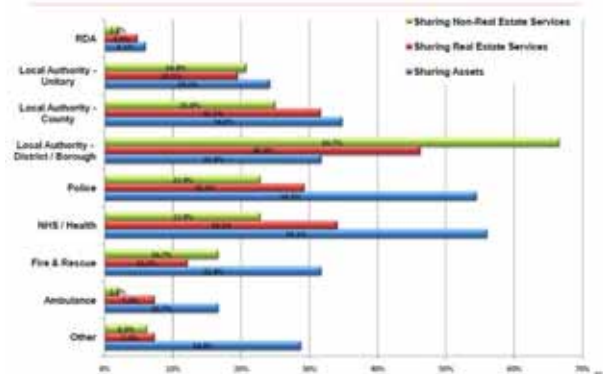
The second positive is that there is an increased view from the public sector that it intends to collaborate more through choice and not through enforcement.

"Collaboration is high on the agenda in our organisation"



We then wanted to find out who you were collaborating with and unsurprisingly the blue lines were around sharing assets, Police and Health remain to be popular partners. The red bars represent sharing real estate services and there is more of a theme around district and borough councils and the green is non-real estate services collaboration and again there is a theme around districts and boroughs.

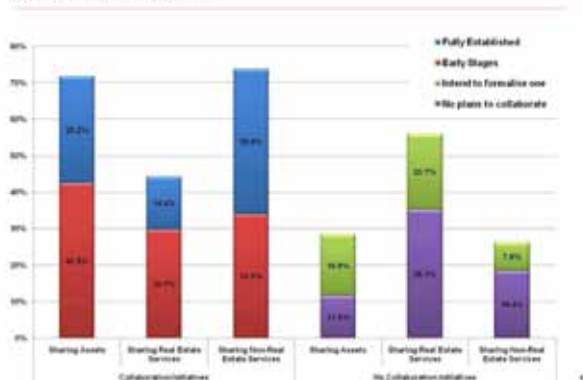
Popular collaboration partners



So, the big question is what quantum of collaboration is taking place?

We see here is that the blue bars split into the three categories that show fully established cooperation initiatives. The red bars show on going but early stage collaboration initiatives. On the right hand side, however, in purple and green this is where you have confirmed that this is where no collaboration initiatives exist whatsoever. I am not sure whether we need to be worried about this.

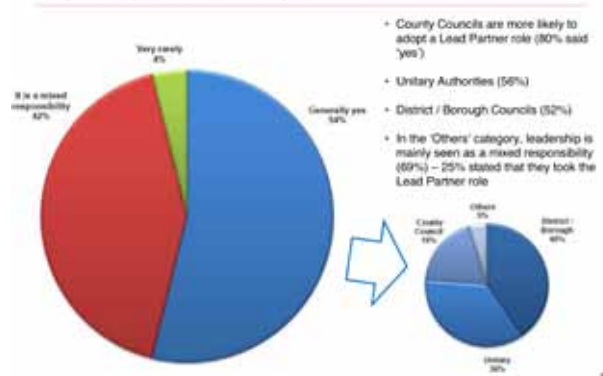
Collaboration Initiatives



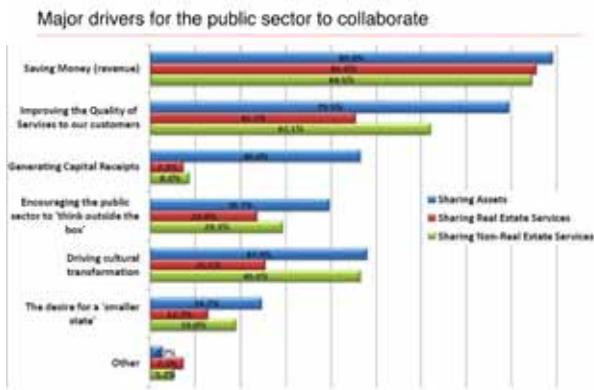
About a quarter of organisations surveyed are not yet collaborating on asset sharing and the sharing of non-real estate services and around a half are not yet collaborating on shared real estate services. Interestingly around two thirds confirmed that their organisation is collaborating on asset sharing and that concurs with the previous view from 65% who felt that effective collaboration could only occur around asset sharing and co-location.

We then asked about who adopts the role of the lead partner. There is a general view from County Councils that they adopt the lead partner role more than others. However other respondents tended to see it as a mixed responsibility.

Do you adopt the role of lead partner?



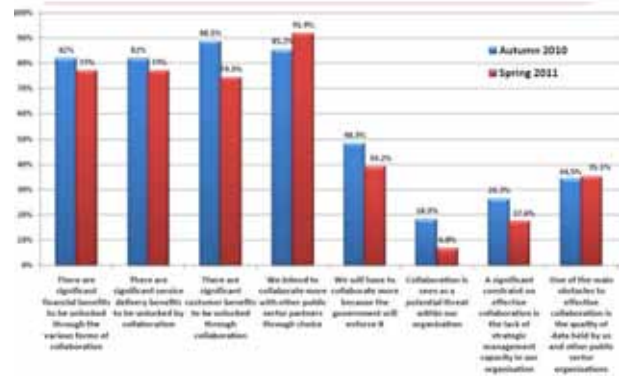
This is where it starts to get interesting. We asked Local Government why you might pursue collaboration. Unsurprisingly cost saving is seen as a potential driver and high priority. For sharing assets and non-real estate services a major driver for Local Government is improving the quality of services to customers.



It is also interesting to see that you would probably pursue collaboration in order to drive out cultural transformation around sharing assets and non-real estate services but less so around sharing real estate services. Continuing on the theme of drivers, we then asked you to forget about why you might pursue collaboration, and to think about why you think the Government is encouraging you to pursue collaboration. Again, we see saving money as a high priority and there is not much of a change in terms of saving money as a Government driver between the figures for now and last August.

You also now believe that the Government is pushing collaboration more because it wants a small estate. This is probably because of the GPU pilots etc. but that is an interesting shift in view there, likewise with generating capital receipts. In the autumn it was at around a 25% response rate but this has now shot up. I am not sure whether we should be worried about this or not, but your view is that Government no longer sees improving the quality of services as a driver for collaboration. You can see your view has shifted quite a bit in that area, Food for thought.

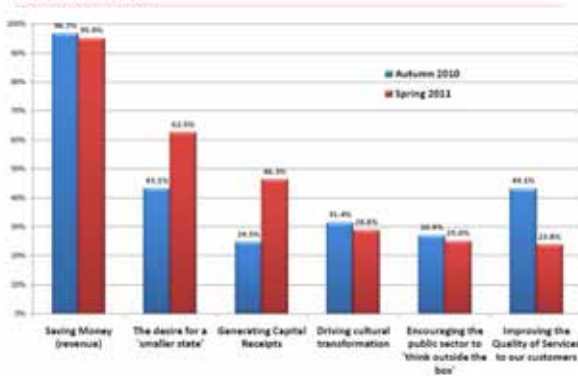
Public sector agreement to DTZ statements



The first few groups of bars seem to tell me that you are having a slight change of heart about what the benefits of collaboration. There has been a slight dip in agreement to those statements. Secondly, as we have already said, there has been an increasing view that you will collaborate more through choice. In terms of the threat, there is a drop in the view that collaboration is a threat so that is a positive. Whilst we have got a significant constraint on the effect of collaborations and the lack of strategic management capacity in our organisations, there is a positive there in that you seem to be feeling that the strategic management of your organisations is getting itself in order and that it represents less of a constraint.

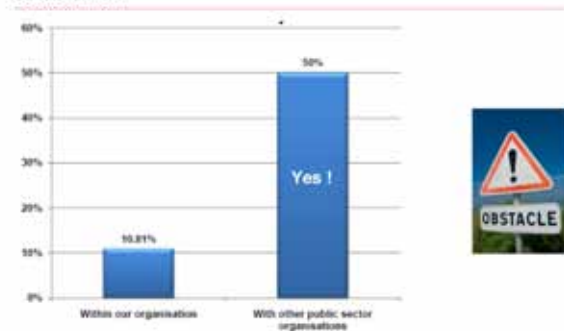
The final set of bars on the right is about the quality of data. Your view on the quality of data being an obstacle has largely remained the same so there seems to be an issue there and we will see if that changes with the Government's initiative to improve the national dataset.

Major drivers for the Government to encourage collaboration in the public sector?



Moving on to other statements that we put to you, there are a few messages.

"A lack of clearly defined objectives is an obstacle to effective collaboration"



This slide is a statement about saying the lack of clearly defined objectives is an obstacle to effective collaboration. Interestingly 50% thought that was the case in terms of a partnership with other public sector organisations so there is a message there in that there has got to be a point to collaboration and we heard earlier that there has to be benefits all round and some very clear objectives.

Conclusion

Summarising the headlines of the survey whilst collaboration is high on the agenda, there still seems to be some areas where no collaboration is being planned. Less of a threat is a shifting view about why Government is pushing collaboration now and a positive around the management capacity of organisations being less of a hurdle to collaboration. You have heard about Police and Health being most popular partners around sharing assets, County Councils reckoning that they take more of a lead role and the lack of data and common objectives remaining potentially as obstacles to effective collaboration. These are probably the major headlines in my view, but you seem to be shifting your own views on the benefits of collaboration. Saving money is still the driver, but are we foregoing quality of service to our customers because the focus is so much on savings?

Thoughts for the day:

- Should we be concerned that almost 11% of those that responded felt that there was no clear view on whether collaboration is high on the agenda?
- If 11.5% of those that responded have no intention to collaborate around asset sharing and 35% have no intention to collaborate around shared real estate services, why is this and is there a role for ACES here?
- And finally is there a real nervousness that in seeking to drive out all these cost savings Government is saying it is prepared to forego quality of service to customers?

Finally I will ask the question again; where do you think you and your organisation are now? And if we get asked to do this again where do you think you will be? Will you be in that bubble? I think you are just getting in there now.

