CAPITA SYMONDS

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Make the most of your assets

The public sector property estate costs billions of pounds to manage and is an obvious candidate for savings. An *LGC* survey found a recognition that rationalisation is not only necessary in cutting costs but can also improve efficiency, writes **ALEX BLYTH**

In a speech to the House of Commons on 8 June, chancellor George Osborne called on government departments to examine their assets, including property, and to consider contracting them out or privatising them. He said: "Departments will be asked to examine their assets and consider how they can be managed more effectively, and whether they need to be held at all."

The announcement will not have surprised many senior figures in local government. The public sector estate is worth an estimated £280bn and costs £25bn a year to run, and the Exchequer has been casting its cost-cutting eye over this area for some time now.

In his 2009 Operational Efficiency Programme, Lord Carter of Coles concluded that using central government's offices more intensively could reduce its need for office accommodation by 30%, and that this would save £1bn a year. Slimming down the remainder of the estate by 20% over 10 years would cut running costs by between £2bn and £4bn a year.

So, given the chancellor's promise to slash public sector spending, it has for some time seemed likely that spending on property will need to be reduced. Without doubt a significant proportion of those reductions will come from local government property.

Who do you see helping you achieve your property rationalisation goals?

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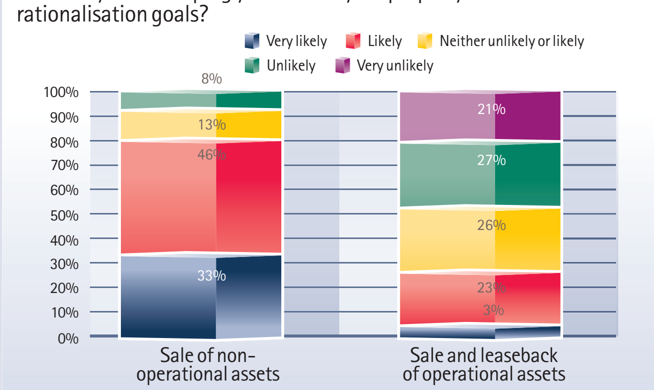


> The massive budget deficit has created a 'burning platform' for strategic public sector asset management as a big part of the solution
> **Mark Goodwin, director, external affairs, Royal Institution of Chartered Surveyors**

Accepting the inevitable

Against this backdrop *LGC* and Capita Symonds surveyed senior local government managers to find out what they think and, crucially, how they believe these savings can best be realised without detrimental effect to service provision.

This survey shows they recognise the need to make savings from their estates: while only 33% describe them as "over-sized", 69% of respondents say their estates are costly to maintain; and 69% admit that they are not suited to modern service delivery.

Some have already begun the necessary work. In 2009, the Audit Commission indicated that councils' progress in rationalising their estate was "modest". Forty-five per cent of respondents said that the pace of rationalisation had accelerated; 52% believed it had stayed about the same.

Making it happen

While respondents recognise that estate rationalisation is necessary, they also have strong views on how this should be accomplished.

First, public service convergence or co-location as a means of rationalising the estate is on the agenda for 77% of respondents. Eighty-seven per cent would share with primary care trust services and 77% with local emergency services, but only 52% would share with other registered social landlords, such as housing associations.

Second, respondents seem to lack faith in fellow public servants to help them achieve those savings. Ninety per cent say they would keep strategy in-house and 73% would keep finance in-house. When it comes to bringing in the necessary resource and expertise, 27% would look to the private sector.

Finally, there seems to be little enthusiasm for leaseback options. While 79% of respondents said that they would be likely, or very likely, to realise capital through the sale of non-operational assets, only 19% believe they would be likely, or very likely, to realise capital from estate through the sale and leaseback of operational assets.

Approach with caution

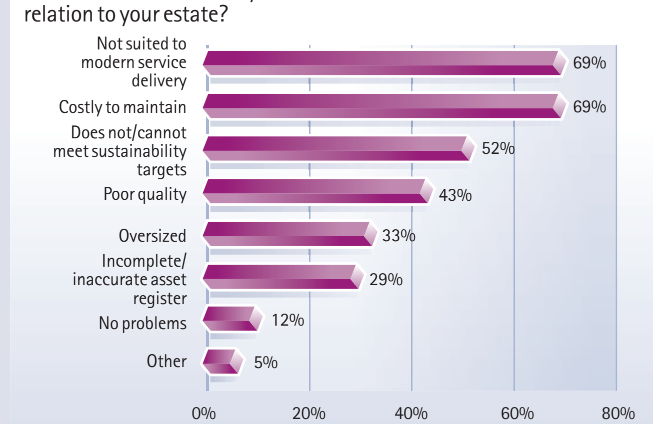
In their responses managers emphasise that making savings will not be quick or easy. Property is inherently illiquid. Disposing of it takes a long time and it takes significant resource to ensure a proper disposal.

It is not only local government managers who raise these concerns. Commenting on the survey results, Mark Goodwin, director of external affairs at the Royal Institution of Chartered Surveyors (RICS), says: "The massive budget deficit has created a 'burning platform' for strategic public sector asset management as a big part of the solution. The danger is that pressure for short-term cuts and quick disposals will not deliver real value and will deplete the pool of professionals capable of delivering the best practice that is out there."

He adds: "RICS is urging the government to understand the lead-in times for effective change in property, to recognise the crucial contribution of property professionals in delivering efficiencies, to show strong leadership to encourage collaboration among local property-owning bodies, and to bring public and private sector expertise together."

It is a long list of demands but, as the *LGC* and Capita Symonds survey shows, it is important the government rises to the challenge. There are savings to be made from local government estates, but there is much that can go wrong if those savings are not made in the right way.

What are the main issues you face in relation to your estate?



COMMENT

MARK NORRIS
Executive director, Capita Symonds

CAPITA SYMONDS

Property efficiency? After all the talk, it's for real

The results of the survey are fascinating. Although the progress is limited, there is clearly a serious drive from senior local authority figures to unlock the savings available from their property estates and services. More importantly, there is also a greater willingness to work with the private sector in developing new property solutions in innovative partnerships.

The survey shows that the top three issues in terms of property are serious ones: that buildings are not suited to modern service delivery, they are costly to maintain and cannot meet sustainability targets.

Surprisingly, given the unprecedented level of public sector debt, more than half of respondents indicated that their estate remained largely unchanged from that analysed in the most recent Audit Commission report on local authority property in 2009.

There also appears to be a mismatch in the available resources for the rationalisation of property portfolios (approximately 70% indicated that the required strategies, finance, and expertise exist in-house) and the progress made to date.

Nevertheless, the tightening of central government funding has undoubtedly brought the capital that is tied up in local authority assets into sharp relief. For example, 84% of respondents said estate rationalisation was vital, and all respondents were looking to find ways of reducing the operational cost of the estate.

But how can efficiencies be realised? Most indicated that the key lies in relocating out of redundant space and consolidating into modern and efficient property while introducing new ways of working (with potential savings of up to 40%). As a result, a willingness to 'de-silo-ise' historically separate organisations is increasing – 73% of local authority respondents indicated that public service convergence and co-location was on their immediate agenda.

The survey also reiterates that effective estates rationalisation using new delivery models is key – stand-alone sale and leaseback of assets by local authorities is not considered a viable solution under the current local government funding regime, whereas the release and sale of surplus non-operational assets in combination with property services outsourcing certainly is.

Overall, it looks as though, after umpteen reports on public sector property efficiency, this time it's for real.

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