

## CONFERENCE REPORT

# A silver lining for the government estate



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Few people foresaw the financial sector's collapse. As well, few people foresaw how it would affect the government's property and asset management activity.

It is turning into that proverbial silver lining in a storm cloud, as the 100 or more delegates heard at *Estate Rationalisation in Central and Local Government - New Solutions and Thinking*, a major civil estates conference. Yes, the financial crisis focussed minds on saving money. This included efficiency savings, particularly by those in charge of the government estate, including within local authorities.

But a major change in mindset is happening that is sweeping up even the real life Sir Humphreys, those stalwart senior managers and permanent secretaries of the status quo within the civil service.

Government debt thanks to the recent financial crisis where billions of pounds were handed over to financially floundering banks has exercised the minds of many analysts as well as tax payers.

It's serious and many organisations would flog off the family china to pay down their debt. But the government's situation is not as dire as most people think. In fact, the financial crisis could be said to have put a lot of realities into plain focus and offer up a lot of opportunities.

Initially thought under threat of being sold off was the government's land and property bank, seeing as the government is the largest property owner in the country.

Analysts thought that the government's Property Unit would really be about selling off assets. Well, maybe, but not quite yet, said John McCready, who heads the unit set up to maximise value from the state's property portfolio.

That's because the government can actually afford to pay off its debt, he explained. It needn't listen to those urging "balance sheet repair" where bean counters "shed a tear" for having to dump property at low prices so the proceeds make the balance sheet look better.

Value of land is dependent upon planning permissions to develop it. If, as now is the case, a lot of that land doesn't have planning permission, then it would go for a knock-down price in an already depressed market. It would truly be a double whammy for the government.

While the government can borrow money cheaply, must more than ever spend it wisely. McCready said property developers may have been eyeing that land before but the government is saying it's not for sale, so let's work together to make better use of it, including the existing and future buildings.

He foresees more joint ventures with the private sector because it is they who have the skills, from design and construction to Total

FM, needed by government to maximise property value.

But he also says the government has to be better at being an intelligent client and get good value for money. Gone are the days of the public sector being an easy profit target for the private sector. "But that doesn't mean we don't expect the private sector to make money," he said.

### Financial guidance

To help the process, the Treasury is in the middle of producing guidance for setting up and running joint ventures, said the conference chairman, Stephen Dance, director of the government advisory body Partnerships UK. The guidance, due by the end of the year, will help asset managers decide what they want to get out of a joint venture, advice that has been lacking in the past.

What is not likely to happen, said Jonathan Thompson, a partner with consultant KPMG, is a lot of sale-and-lease-back deals, no matter who gets into power in the next general election. Labour, Conservative and Liberal Democrats all believe better use of existing land and assets is the way forward.

We'll see a lot more emphasis on shared services, cross-departmental working and contracts, and the government will get a lot better at negotiating contracts. Why should the government settle for standard contracts when

## Partnership proves to be just the job

A leading example of a successful partnering remains the teaming of property firm Telereal Trillium and the Department for Work and Pensions. The 20-year contract signed in 1998 underwent a major review leading to a similarly major refurbishment, said David Smith, commercial director of the DWP.

Their Adelphi offices in London were unoccupied 70 per cent of the time until the phased refurbishment in 2003. The same space now has higher occupancy rates and also 25 per cent more occupancy capacity.

In the past several years Telereal Trillium bought the DWP's Job Centre Plus buildings under a contract whereby DWP gets flexibility of occupancy. When they need the space, they occupy it. When they don't, they vacate – at no charge – and Telereal Trillium is free to rent it as they see fit. At any one time they can vacate up



to 35 per cent of their property at no cost. This flexibility is what value for money is about for the DWP, said Smith. It has helped the DWP become, and remain for several years, the most productive department in Whitehall.

Estates at the DWP is also the biggest single

outgoing each year. However, it also is the biggest single saver each year, said Smith, who handles everything from procurement to property, but freely admits "I hate property".

But then he just as freely acknowledges, "that's why I work with Telereal Trillium".

they are such a major market in themselves, Thompson asked.

Importantly, watch for the creation of a Government Asset Management Company, or GamCo as Thompson called it. This guidance body will be the driver behind improvements to managing the estate and working with setting up joint ventures. It could also own property itself and put in place some kind of incentivised accommodation agreements with client departments.

Because there will be a lot of refurbishments bringing property up to fit-for-purpose standards, a GamCo might help in setting up standardised and repeatable contracts to save money. Thompson also suggested that more than one GamCo could be set up, such as in regions and urban areas or for specific local authorities.

Responding to a question from a concerned delegate, Thompson said a GamCo would certainly not be like the controversial Property Services Agency which ceased to exist in 1993: "If there is any indication that a GamCo would look like the PSA, it would never get off the ground."

PSA was set up in 1972 to manage the civil estate. Everything from Defence establishments, offices, courts, laboratories and land were under its control. Amid corruption allegations beginning in the mid 1980s and consequent issues over

misalignment with government strategies, it eventually was split up and sold off piecemeal.

## No overall approach

But first things first, said Stephen Foot, director of Concerto Consulting. Ever since the demise of the PSA, like it or not, there has been 1,500 property managers in the civil service doing their own thing locally. They have not had any overall government property strategy to follow.

Such a strategy is the highest priority if the government wants to reach its goal of a 30 per cent cut in office accommodation, said Foot. What the PSA lacked, and a GamCo would need, is an intelligent client unit to help the partnership approach between client and all suppliers.

Part of any government property strategy must be an understanding of what happens to savings, suggested Alan Couzens, project director for Partnerships UK. Does it just go back to the Treasury or does part of it get reinvested in the department, he asked as a member of a roundtable debate.

Even at higher management levels, there's an acceptance – although at times accompanied by a culture shock – of new ways of working, said Charles Stevens, head of estates and projects at the Department for Business, Enterprise and Regulatory Reform.

The department has reduced 33 buildings in 2003 down to 12. They recently moved out of a

40-year-old building in Glasgow, where occupants each had 35 square meters of space, and into a modern office with eight square meters. Even so, there were no real complaints. Stevens also now meets the permanent secretary several times a year formally to discuss property.

But Stevens pointed out what remained "a millstone around my neck" – long leases, some up to 2016. Getting out of them are problematic.

Janet Young head of estates and FM at the Department for Children, Schools and Families, said that a refurbishment had originally planned for eight workstations per 10 staff. But they had no problem settling for seven workstations because staff accepted more flexible working patterns. And capacity levels regularly average 85 per cent or better.

Any talk of best value holds some danger for local authorities, said John Carleton, chief executive of Local Partnerships, a joint venture between the Local Government Association and Partnerships UK. Council services touch the day to day lives of their users often much more than central government services. So their buildings – libraries, advice centres, leisure set-ups – have a heavy footprint.

When made redundant, why not "recycle it" by using it for another activity that needs extra space? This could add value to an existing service.