



National Audit Office

**REPORT BY THE
COMPTROLLER AND
AUDITOR GENERAL**

**HC 1826
SESSION 2010–2012**

2 MARCH 2012

Cabinet Office

Improving the efficiency of central
government office property

Key facts

5m m²

estimated size of government's office estate

£1.8bn

estimated annual cost of occupying those offices

13.2 m²

current average amount of space per person across the government's office estate

- £100 million** estimated reduction in annual running costs of the civil estate achieved each year between 2004 and 2010 (including offices, courts and laboratories achieved) – £600 million in total
- £212 million** estimated reduction in the central civil estate's annual running costs since new central arrangements were established (April 2010 – December 2012)
- 10.0 m²** Operational Efficiency Programme's recommended average amount of space per person for government office buildings
- 8.0 m²** Government's aim for the amount of space per person for new and refurbished office buildings
- £830 million** potential further reduction in annual costs if a space standard of 10 m² per person is achieved
- £650 million** portion of the potential further reduction achievable by 2020 by exiting leases as they expire (the easiest way to shrink the size of the estate)
- £180 million** portion of the potential further reduction that requires sale of freeholds, early surrender of leases, or finding private sector tenants (difficult to achieve under current market conditions)

Summary

1 There are an estimated 2,511 central government offices, representing 5,400,000 m² of space, of which an estimated 380,000 m² is sublet. The remaining 5,020,000 m² of space costs an estimated £1.8 billion per year. Government has made good progress transforming how it uses this office estate over the past decade by moving from traditional cellular offices to open-plan offices and increasing 'hot-desking', where individuals do not have their own desk. We estimate that space has reduced from 17.1 m² per full-time employee when we first looked at this in 2006, to 13.2 m² by December 2011.

2 These efficiencies were delivered under a system where central government departments and their arm's-length bodies owned and managed their own property portfolios (we refer to both departments and arm's-length bodies as 'departments' in this report). Government has recently recognised that, to make the best use of space in future, departments must significantly improve how they work together to share space, use it flexibly, and plan their future requirements.

3 The Government established the Government Property Unit (the Unit) in 2010 to strengthen central control over property management. This report examines how well the Unit supports departments to further improve the efficiency of the office estate. The report:

- examines the potential for savings and assesses the current pace of reform;
- identifies the barriers to making savings more quickly; and
- assesses whether the Unit and wider central government are taking all possible actions to address these barriers and to improve the value for money of the estate quickly.

Key findings

Delivering efficiency savings

4 **Departments acting individually have already made good progress, reducing the annual cost of the central civil estate by an estimated £600 million in real terms between April 2004 and March 2010.** This includes savings from the office estate (the focus of this report) and the operational elements of the civil estate, such as laboratories and courts, the latter of which are beyond the scope of this report. There are no pre-2010 savings figures for the office estate alone. The environmental performance of the office estate has also improved over this period.

5 Since April 2010, £219 million further savings have been identified, comprising reductions in the annual cost of running the central civil estate of £212 million, plus additional one-off savings of £7 million. Within this, as reported by the Cabinet Office in February 2012, are cashable savings of £132 million for the first nine months of 2011-12. In May 2010, the Minister for the Cabinet Office announced a freeze on acquiring new properties or extending leases without permission. This was formalised into National Property Controls in 2011, that are administered by the Government Property Unit. The controls have proved effective alongside the existing pressure on departments to reduce administration costs; have focused departments on planning for future lease breaks earlier; and have encouraged departments to work closer together in planning their future estate needs.

6 If departmental staff numbers fall as expected and the amount of office space per person can be reduced to 10 m², government would release about 2 million m² of further office space costing over £830 million by 2020. This amount is considerably more than the total current office space in Canary Wharf. It would thus require substantial and complex reconfiguration of the estate and will take many years. It is also dependent on being able to exit the surplus space in a timely fashion.

7 However, departments are finding it difficult to surrender leasehold buildings before their leases expire, find private sector tenants to use their surplus space, or dispose of freeholds, because of the currently weak commercial property market. As a result, the full potential £830 million savings are unlikely to be achieved before 2020 (Figure 8 on page 23):

- **About £650 million of cost reductions are achievable by exiting surplus leasehold offices as their leases expire.** As staff consolidate into fewer buildings on the government estate, properties can be handed back to landlords. If half the expected leases expiring before 2020 were surrendered, it would reduce annual costs by £650 million. Handing back properties to landlords in this way requires minimal additional investment and does not require departments to find another use for the building. The complexities of consolidation will, however, require departments to plan their estates strategies together.
- **The remaining £180 million of annual cost reductions will be harder to achieve.** It is possible to exit surplus leasehold offices in advance of contracted dates, and to sell or grant leases on freehold property. However, the market for office space is not currently strong, and departments are finding it difficult to secure private buyers or tenants for their surplus space, especially outside of London. Making the space suitable for others to use can require significant up front investment and financial risk. Departments often find it cheaper to leave such buildings empty (mothballed) which can save on some, but not all, the costs of running the building.

8 Delivering these savings requires a step-change in the way departments work together, but they are hindered in doing so by structural barriers. To date, departments have mainly concentrated on consolidating their estate within their own portfolios. To make the most efficient use of space, departments must plan their estate strategies together to ensure they share space and overcome silos. There are two barriers that are hindering their efforts to plan moves together:

- **Separate departmental responsibility for budgets provides departments with incentives that can conflict with taxpayer interests.** Departments must often bear the costs and risks of a move when the benefits to government as a whole go to another department. So far, all the major interdepartmental moves have required departments to agree ad hoc bilateral arrangements to share the costs and benefits.
- **Departments' ICT and security arrangements are incompatible.** Staff of one department cannot easily use another department's buildings.

9 The reconfiguration of the estate required to make these savings also offers the opportunity to support wider civil service reform. Government is currently exploring how changes in the use of office space can enable increased flexible and remote working; use of better ICT systems; delivery of environmental benefits; and service improvement through joined-up working. However, we have not seen these wider initiatives translated into property planning, and if departments rely solely on lease breaks and expiry to shrink the size of the estate, government risks ending up with an estate in 2020 that is similar in nature to the government estate in 2012, only smaller.

The role of the centre

10 The new Government confirmed the establishment of the Government Property Unit in June 2010. It also announced that the Unit would establish two property vehicle pilots in central London and Bristol during the course of 2011-12. It intended that these vehicles would centralise ownership of property, establish a rental regime to encourage departments to reduce their space requirement, and potentially use private-public-partnership arrangements to help dispose of surplus property.

11 However, the Unit has been slow to change the way government manages its estate. It:

- **Continued to deliver the services to departments that had previously been provided by the Office of Government Commerce's property team (part of HM Treasury), including advice and benchmarking.** It turned these strengths into effective policing of the National Property Controls (paragraph 5).
- **Concentrated in its first year on developing plans for property vehicles, which it failed to gain support for, and later dropped in favour of pursuing place-based consolidation strategies.** Its plans for property vehicles alienated estates management professionals across government. Departments could not agree on the governance or budgetary arrangements. The Unit was not able to set out adequately detailed plans as to how property vehicles would operate in practice. HM Treasury told us that it could not assess the plans because they were insufficiently developed and that it could not therefore authorise the necessary funding and budget changes. Immediate proposals for property vehicles were effectively dropped in summer 2011 in favour of pursuing 'place-based' estates consolidation strategies.
- **Did not meet its intended capacity until mid-2011 and had difficulty integrating systems and staff.** The Unit was originally established in the Department for Business, Innovation and Skills to take advantage of the asset disposal experience in the Shareholder Executive. However, the Unit struggled to assert influence across government and to integrate systems and staff transferring from the Office of Government Commerce. The Unit then moved to the Cabinet Office Efficiency and Reform Group in July 2011.
- **Provided advice to departments on some specific projects, but has not fully worked out how best to use its property expertise across government.** It is not clear when departments should seek advice from the Unit for specific projects, or how the Unit can aid departments in specific commercial negotiations. The Unit has also yet to fully explore centralised approaches to using government's purchasing power. Departments are delivering efficiencies through combining facilities management contracts, and the Unit is exploring the potential for further savings through combining across departments. In contrast, the terms and conditions of lease contracts remain varied. Existing rental agreements agreed by departments do not reflect the lower risk and combined buying power government tenants have in the commercial property market.

As a result, we found that the centre of government is not yet operating effectively in five of the six key areas we believe necessary (**Figure 1**).

Figure 1

Effectiveness of the centre of government against six key areas of responsibility identified by the National Audit Office

Activity	Assessment	Summary
Vision and strategic planning	 Amber	The Unit's initial plans for centralising estate ownership and management have been deferred in favour of planning consolidation in specific local areas. The first two 'place-based plans' are for central London and Bristol. These highlight the potential for efficiencies from departments working together. They remain, however, focused on tactical estate reductions, and do not set out what government wants from its estate.
Collating and sharing information	 Amber	Government has substantially improved central management information on the civil estate over the past decade. This has helped government to understand how much space it has and enables the effective operation of the National Property Controls. However, it does not collate sufficient information centrally to enable departments to manage their estates together, or for the Unit to undertake detailed planning.
Addressing financial barriers	 Red	Departments' incentives can promote perverse behaviour and stop them from working together. HM Treasury, working with departments, needs to be able to vary budgets where this is in the interests of taxpayers. Funding for place-based plans is not yet in place.
Policing spending controls	 Green	The Unit is policing lease extensions and property purchases and disposals effectively. The Unit effectively challenges departments and has forced departments to plan further ahead. Central review of new facilities management contracts is also in place, with standardised service requirements for future contracts.
Removing barriers to working together and promoting best practice	 Amber	Government has increased adoption of best practice in using open-plan office and hot-desking, but departments continue to face barriers to working together, particularly from incompatible ICT and security arrangements. The Unit has established two pilot projects aimed at exploring potential ways of improving working practices though the linkages between this activity and wider civil service reform are not strongly drawn.
Developing and deploying expertise	 Amber	Departments have often welcomed the advice and support they have received from the Unit. However, its remit is unclear as to when it should provide advice and support to specific projects. It is also developing plans to lead the property profession. It does not enforce standardised approaches to negotiation and lease terms, or facilitate collective bargaining.

Source: National Audit Office analysis

12 Over the course of 2011, the Unit changed its approach and started facilitating interdepartmental planning within existing governance and ownership structures. The Unit converted its pilot property vehicles into two pilot 'place-based plans' for central London and Bristol. The plans set out the buildings to retain as the 'core estate' and which to dispose of, as well as illustrations of the interdepartmental moves and space-sharing required. The plans provide the basis for future strategic planning on reforming the estate and are expected to improve interdepartmental estates management and make savings. However, so far these plans have been necessarily opportunistic, as they choose which properties to retain and which to dispose of based on what is easy to exit rather than on what best meets government's needs. The Unit's current plans also contain very little future investment in early exits, buying freeholds, or refurbishing buildings. They do not set out a strategic vision for what government wants its estate to look like or achieve from its transformation.

13 The Unit is also now taking a greater role in wider civil service reform.

The Unit has commissioned Vodafone to help the Department for Business, Innovation and Skills and the Department for Transport to explore how the use of ICT can support more flexible working and reduce the need for office space. The Unit is also contributing to work led by the Department for Transport on reducing the impact of civil servants travelling into central London during the Olympics, through flexible working and encouragement of alternative travel arrangements. The Government believes this work has the opportunity to deliver sustained benefits beyond the Olympics and that it has the potential to act as a catalyst for wider civil service reform.

Conclusion on value for money

14 Departments have made good progress in improving the efficiency of the central government office estate since 2004. Achieving an average space standard of 10 m² per person would deliver a further reduction of £830 million in the annual running costs of the estate. £650 million of this should be achievable by 2020 by relying on leases expiring. However, in order to make this happen, departments will need to plan their estates requirements together. Furthermore, the real benefits of estate reconfiguration will only happen if government uses reform of the estate to facilitate wider improvements in how the civil service works.

15 The Government Property Unit is well placed to lead and support departments in achieving savings and to ensure reform of the estate facilitates wider improvements. However, the Unit is not yet securing the required impact in five of the six key areas we have identified as necessary for the centre of government to take a lead. To be effective, the Unit needs support from HM Treasury to work out how to finance and best share the risks, costs and benefits of property moves that will deliver savings to the taxpayer. Without these reforms, departments will continue to miss opportunities that are in the interests of taxpayers.

Recommendations

16 The Government Property Unit has recently been transferred to the Efficiency and Reform Group within the Cabinet Office. The Unit is now well placed to improve its influence and performance. The Unit is only likely to be effective, however, if it is supported by HM Treasury. In particular, the costs and benefits of office moves and projects should be shared in such a way that no compelling opportunity to deliver savings to the taxpayer is lost.

17 For the past two years, government and stakeholders have discussed the possibility of centralising ownership of office property to enable the Unit to take a more directive approach. However, such structural reform would cause a significant amount of upheaval and the Unit lacks sufficient evidence that further centralisation of ownership is necessary to achieve its aims.

18 This study has highlighted six key functions where central government can make improvements within the existing structures (Figure 1). Delivering improvements in these areas will strengthen central direction over the current structures, speeding up estates rationalisation and transforming the office estate to better meet government's future needs. We believe government can progress these recommendations while evaluating whether reform of the office estate ownership structure is necessary.

Vision and strategic planning

a **New place-based plans identify opportunities to rationalise the estate, but do not set out what government wants from its estate or say how transforming it can improve how the civil service works.** The Unit should:

- lead work with departments to agree a vision for the shape of the central government estate, including the geographical distribution, ownership and use of office space, and particularly how transforming the estate can help reform the civil service;
- develop cross-departmental place-based plans that move towards the agreed vision, building on the early work in London and Bristol. While recognising that the vision will not be achievable in one step, the plans will challenge departments to move in the required direction, and enable the centre to broker, or where necessary direct, the most beneficial solutions; and
- ensure these place-based plans work with other government economic and spatial planning, including plans currently being developed by local government and the Department for Communities and Local Government. The Unit's plans should also consider wider impacts, including their local economic impact and alternative uses for empty properties such as for charities, social enterprises and business start-ups.

Collating and sharing information

b Centralised information on property is not designed to allow departments to manage their estate collectively or to market the estate to potential tenants and buyers. The Unit should:

- work with all departments to improve data collection, validation and verification around the core set of key data needed on every building to manage an estate (Figure 13 on page 35). The Unit should use this information to help departments manage their estates together, promote public transparency about the estate, and allow comparisons to be made between buildings and departments; and
- building on the recent publication of a database of vacant space, develop an information portal for prospective public and private sector tenants to identify government buildings with surplus space. This should include both whole buildings and potential surplus space within occupied offices.

Addressing financial barriers

c Departments are finding it difficult to finance moves requiring investment and have little incentive to undertake projects whose savings would fall to other departments. The Cabinet Office should work with HM Treasury to:

- work out how to share the costs, risks and benefits between departments involved in these 'accelerated' moves. The robust strategic planning recommended above may identify a compelling taxpayer benefit that would justify investing in an accelerated move. Where the costs, risks and benefits of the move do not naturally fall to the same department, central mechanisms may be required to help secure the saving; and
- consider using joint venture arrangements with the private sector to develop surplus properties either to modern office standards or to recycle the building to alternative use such as residential, rather than selling properties undeveloped. A private partner may be able to provide local commercial knowledge and skills, verify the commercial potential of the project, and share some of the potential profits of development with government. Government would be protected from the risks of speculating in property development, while the partner would not have to finance the purchase of the property up front.

Removing barriers to working together

- d** **Government has not yet resolved the ICT and security barriers that prevent departments effectively using shared space, and sharing that space more effectively with private sector tenants.** The Unit needs to work with the wider Efficiency and Reform Group to achieve cross-government action to improve the flexible sharing of departmental spaces.

Developing and deploying expertise

- e** **Government's approach to property negotiations is fragmented and the Unit is not yet fulfilling its potential as a centre of expertise.** The Unit should:
 - develop a strategy to share property skills effectively between departments, including rationalising how property consultants are procured, and using its own skills to best effect. To ensure roles and responsibilities are clearly understood, the Unit should agree memoranda of understanding between the Unit and each department. The Unit also needs to create development pathways for property professionals and develop networks for central government employees working in the sector; and
 - the Unit should establish, disseminate and monitor best practice on managing property and negotiating with private landlords, tenants and buyers. In particular, it should establish a standard approach to leases that uses government's buying power and creditworthiness to achieve better than market terms; negotiate with landlords for whole portfolios, rather than property by property; and pool experience on negotiated settlements for paying 'dilapidations costs' to landlords to repair properties at the end of leases.